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MARGINAL UTILITY AND VALUE.

In the issue of this *Journal* for October, 1890, under the caption "Boehm-Bawerk on Value and Wages," I gave some reasons for doubting the claim of marginal utility to be regarded as the regulator of exchange value. Professor von Wieser of the University of Prague has done me the honor of replying to my objections. In an article published in the *Annals of the American Academy of Political and Social Science* for March, 1892, he explains and defends the position of the Austrian economists, taking occasion at the same time to expose the defects which, in his opinion, are inherent in the classical theory of value. The Austrian theory has attracted so much attention, and has at the same time received so little critical examination in English, that I take the liberty of asking space for a brief discussion of it.

The points at issue between the new theory of value and the old are reducible, I think, to two fundamental

questions: 1. What is the true nature of cost of production? 2. What is the true connection between cost of production and value? At least, it seems clear that the fate of the Austrian theory of value depends on the ability of its advocates to answer these questions in a satisfactory manner. I propose in this paper to inquire how far their treatment of these matters up to the present date can be accepted as satisfactory. In doing so, I shall confine myself, in the main, to Dr. von Wieser's article mentioned above, as the latest authoritative statement, making use, however, of other publications by members of the school, whenever additional light can be obtained thereby.

I.

The most striking feature of the Austrian treatment of cost is that it makes value the measure of cost. The cost of each commodity consists in the value of the means of production necessarily used up in producing it. Even human labor is regarded as an element of cost only in so far as it has value. That is to say, the primary element of cost is not the labor itself, but its value. Since this is a point of great importance, it is only fair that we should have it in the words of the authors themselves. Dr. von Wieser explains the nature of cost as follows: —

Every capitalist must in his own interest adapt his business to the general conditions of the market, if he wants it to maintain itself profitably. So far as he resorts to means of production that have other applications as well, he finds that they have a given value. He must pay for them, and the value of the goods he produces must replace this expenditure. In this sense, he has to adapt the value of the commodities to the value of the means of production. Thus originates the conception of cost. Cost consists in means of production having manifold applications, like iron, coal, and common labor, which, even when they are employed in the production of a single commodity, are still estimated according to the value they have in all their applications. The hundreds and thousands of different kinds

of materials and tools prepared for production are counted, weighed, and measured according to the utility which they are to create, and in view of their importance most jealously guarded by their possessors. In the same way, the different kinds of labor are assorted according to the utility expected from them, and arranged according to a classification which differs essentially from that which would result if the effort involved should be taken into consideration. The unlimited possession of useful productive materials and forces forms the basis of the economic confidence of modern society. Since each productive process diminishes this possession, it *costs*,— and it costs exactly as much as the value which the material and labor required would have produced if rationally applied. (p. 41.)

Again:—

Our principle is that value is derived from utility; and, quite in harmony with this principle, we assert that cost is, after all, according to the general law of value, that of marginal utility, measured by utility alone. (p. 44.)

Obviously, there cannot be two independent laws of value. Two independent regulators of value could not always coincide in fixing one and the same value. If marginal utility fixes exchange value, then clearly cost of production does not also fix it. In order to avoid the obvious conflict, the Austrians have undertaken to show that marginal utility fixes cost as well as value. There was, indeed, no other way out of the difficulty. If it can be shown that they fail in this undertaking because they ignore true cost altogether, no further proof is really needed to show that the control over value claimed for marginal utility has not been sustained.

The treatment of cost by the Austrian economists has, I think, two serious defects. In the first place, they set out with the value of such things as iron, coal, wood, and land as factors in the cost of production of the commodities in the making of which these articles come into play. They begin the computation of cost by assuming the value of materials as an ultimate element in cost, as if no inquiry into the history or antecedent conditions of these

materials could be in order. Dr. von Wieser writes precisely as if the man in the moon supplied men with iron, coal, and other materials, in quantities fixed by his own sovereign fiat, at values set by the marginal utility of his wares to us. In other words, the Austrian computation of cost of production begins, not at the beginning of the process of production, but at a selected point well along in the process. The cost of production of iron palings, for example, is contemplated as beginning at the point where pig iron is appropriated to the making of palings. Apparently because iron may be brought to the stage of pig without being committed to this particular use, they do not regard the mining and smelting of iron ore as any part of the process of producing iron palings. This procedure may have advantages for their theory, as well as a certain appearance of reasonableness. Obviously, if cost is to consist in the "value of the means of production," the reckoning of cost cannot begin until value has appeared. So iron in its original ore-bed is not a means for the production of palings, since in that form it has no value. When it has been dug out and smelted into pigs, it has a value, and becomes a "material" or a "means" for the production of palings or any other of the ten thousand things made of iron.

But what, on this method, shall be said of the labor of mining and smelting? Is that no part of the labor of producing iron wares? In the economic sense, which is but another word for the true sense, I see no possible ground for denying this character to such labor. The fact that some materials are adapted to the production of many different sorts of commodities does not in the slightest degree affect the nature of the process of production. That remains for each commodity of the group precisely what it would have been if the other members of the group did not exist. If iron palings were the only commodity made of iron, I suppose the Austrian economists would admit that

the labor of mining and smelting iron ore is a part of the labor of producing iron palings. It is, then, incumbent on them to give a clear and conclusive reason for holding that the use of iron for making other products makes it necessary for us to treat the cost in a different way. The difficulty of foretelling, before differentiation begins, what particular use any given portion of iron ore may be devoted to, does not alter the fact that every portion of it does go to some particular use. There would be no greater difficulty in separating costs at this stage than at any and every other stage of producing things under our highly complicated system of combination of labor. Whether we regard cost as consisting in necessary exertion or in the value of the means of production, there are difficulties in the way of tracing accurately the cost of any given commodity. The Austrian view may mask these difficulties somewhat, but I think it does not really evade or diminish them in the least. At all events, the fact is clear that the labor of digging out the ores of iron and the other metals, of getting wood from the forest, of raising cotton, linen, wool, and all similar "means of production," is productive labor. If it be a part of the necessary labor of producing the goods in the making of which iron, tin, cotton, wool, etc., come into play, what good reason can there be for refusing to recognize it in our definition of cost, on a footing of equality with the later labor? If, on the other hand, we hold that it has no place in the cost of these goods, what shall we do with it? How shall we classify it, and what shall we assign as its economic motive? For my own part, I can see no valid reason for treating it differently, in relation to cost, from the labor of the later stages in the production of each commodity.

The Austrian economists seem to have held that no reason is necessary. The only suggestion I have met with in their writings, that seems to bear on the point, is to the effect that we cannot in any case get back to the very be-

ginning of the production of any article. Even in the making of our tools for use in procuring the materials of any given commodity, we have the use of old tools. This suggestion opens up a large question, as to the proper way of treating capital in relation to cost of production. Dr. von Wieser holds that capital must be regarded as a separate factor in cost, distinct from labor and waiting, or labor and abstinence. "Everywhere the new capital is the descendant of previously existing capital. By no form of computation can the factor 'capital' be eliminated from the cost of capital." He is so impressed with the weight of this consideration that he is unable to avoid a suspicion that English and American economists, finding themselves unable to explain the relation of capital to cost, have entered into a conspiracy to say nothing about it. I must take the liberty of doubting whether he has quite understood the position of those who reduce cost of production to labor and waiting (or abstinence). He argues as if adherents of the classical theory reduced cost to labor alone. We are certainly as free from that error as the Austrian economists. The only real question between us is how to treat the other element in cost. The Austrians propose to call it the value of the capital consumed in producing each commodity. The classical economists urge, in objection, that capital is itself a product of labor; that, therefore, if we name the necessary labor of production as an element of cost, we should be guilty of double counting if we name the necessary consumption of capital as a further element. To this objection Dr. von Wieser replies that "nowhere in our modern economy is capital produced by labor alone." Since, in the making of our new capital, we have the use of old capital, he thinks the consumption of capital must be regarded as an element in cost distinct from, and in addition to, the necessary labor and waiting. But I think he overrates the importance of this consideration in its bearing on the analysis of cost.

In the first place, the fact that we have, in every productive undertaking, the use of previously existing capital, seems to be a poor reason for Dr. von Wieser's own mode of treating cost. The fact that we have the use of old tools in the making of new ones does not obliterate the fact that both the new and the old are products of human labor. Granted that we have the use of old mines, forges, and machine-shops in making the necessary outfit for opening and operating new mines, I fail to see in that fact the least reason for ignoring altogether, in the cost of producing iron wares, the labor of digging out the ores and smelting them into pig iron. Why begin with the value of pig iron, as if that were an ultimate fact, when we all know that this is not the natural form of the material, and that, in its untouched natural condition, iron has no value? Even if it were true that our view of cost can never embrace the very beginnings of production, that would be no reason for declining to get as near to the beginning as we can.

Secondly, no one, so far as I am aware, has ever maintained that all the labor and waiting (or labor and abstinence) entering into the cost of production of the goods of to-day has been borne by the men of to-day. The natural cost of production of things is highly complex in point of time as well as in other ways; and it would be absurd to frame a definition of cost that should regard production as a momentary act, and cost as contemporaneous with the enjoyable product. The truth appears to be that every great industrial undertaking — in fact, almost every provision of what is called "fixed capital" — involves long waiting for the full natural return to the labor expended. That our fathers and grandfathers bore part of the burden of producing commodities we are now enjoying is a fact too obvious to be doubted. But, so far from seeing in this fact a refutation of the theory that the whole natural cost of commodities is ultimately resolvable into labor and

waiting, I see in it only an illustration of that theory. Fortunately for human progress, every generation of men may, by inventive ingenuity and by laboring for distant returns, reduce indefinitely the cost of commodities to the succeeding generation. But this surely does not introduce any new element into cost, different from, and in addition to, the necessary labor and waiting. It means only that the persons who endure the labor and waiting are not always those who enjoy the fruits, especially the full fruits.

Since, however, Dr. von Wieser seems to think the point of great importance, I may be allowed to suggest that, in my judgment, he mistakes the direction in which its importance is to be found. The influence of the existing capital on the present productiveness of industry, and therefore on cost, does not depend in the least degree on the history of capital. The thing that has been affected by the history of capital is the present ownership of it. But the question of ownership has nothing to do with the agency of capital in reducing the natural cost of producing things. The cost of the products would be the same if the capital belonged to the whole body of producers instead of belonging to a comparatively small number of them. But the rights of the individual producer in respect of the current product of industry would undoubtedly be different. So far, then, as the ownership of our present industrial outfit is an historical development, the history of capital has a close bearing on what we call, for want of a better term, Distribution. But the historical cost of capital, the painful labors and waitings by which our remote ancestors made the beginnings of capital, have long since ceased to be any part of the operative cost of commodities. So far as our doctrine of present cost is concerned, we can only take the world as we find it, with all its fulness of devices for making labor productive through the exercise of intelligent waiting power. We do so, of course, bearing in mind that some part of the

cost of to-day's good things was borne years ago, and that some part of the costs the men of to-day are submitting to goes towards the production of good things that will not see the light for years to come. Here, as in other things, political economy must take the facts as it finds them; must not set up a definition of cost of production that ignores the complicated time-relation between true cost and ultimate product; must not pretend that cost of production is a simpler thing than production itself, or is to be found elsewhere than in the process of production itself.

Dr. von Wieser's conception of capital and of its relations to ultimate product may be different from mine. If capital be the industrial outfit other than the land and natural forces, it follows that most of the labor of the community is constantly engaged in the production of capital. Not merely machinery and buildings, but also all materials and unfinished products on which labor has been spent or is being spent, even the finished commodities in the channels of trade and in the hands of the dealers, must be regarded as capital. They are all products of labor applied to the uses of production. They are all essential to the working of the industrial system. Exchange being a necessary stage of production by division of labor, there can be no sound reason for refusing to include in our conception of capital the necessary outfit for carrying on exchange. If these things be true, it is needless to point out how futile must be the attempt to treat capital as a separate element in cost, distinct from the labor of production. Capital is simply the tangible result of labor directed towards obtaining commodities in ways that do not at once yield the desired return. The interim results of productive labor, up to the point of completed exchange, would seem to be capital. How, then, can we speak of capital as an element in cost distinct from and in addition to the requisite labor of production?

If it be allowable to throw out of account some part of the necessary labor, substituting for it, as an ultimate element of cost, the value of the materials or the machinery it has prepared, there is no obvious or conclusive reason for stopping short in the substitution at the point chosen by the Austrians. If it be admissible to start with the value of iron in defining the cost of production of iron palings, it must be also allowable to start with the value of flour in defining the cost of producing bread, and with the value of cloth in defining the cost of coats. That procedure would certainly simplify very much the treatment of cost. But, unfortunately, it would give a very empty and unreal view of production. We might about as well set out with the value of palings, coats, and bread themselves as the one great and ultimate element in their own cost of production,—which, indeed, as I think we shall find, is substantially the very thing Dr. von Wieser asks us to do. Not, of course, in this bald and abrupt fashion, but in ways which, however complicated and roundabout, may be shown to lead in the end to this result.*

This brings us to the other, and, as I conceive, more radical defect of the Austrian treatment of economic cost.

* If I were merely trying to convince American economists of the error of the Austrians, and not rather hoping to convince the Austrians themselves, there is another consideration that I should urge with entire confidence in its efficacy as an argument against substituting the value of materials for the labor of producing them. I refer to the fact that the value of pig iron, for example, is the medium whereby the miners and smelters of iron ore draw their rewards from the rest of the community. What is paid for pig iron goes to make the wages and profits of those who produce it. English and American economists have, I think, too lively a recollection of the perplexities and miseries growing out of the confusion of cost with the rewards of those who endure the cost, to be willing to fall back into that bog. But the Austrian economists are clearly in a different frame of mind. They seem not to have felt the difficulty, because their ideas of value are so different from ours. They have so many meanings for value, and can so readily take refuge in the depths of subjective value, that I should not expect this argument to make any impression on them. When they speak of the value of iron as an item in the cost of palings, they seem to have in mind primarily not the amount paid for it, but the value of the other things the iron might be turned into. Their critics must meet them on their own ground.

Their fundamental principle is that cost of production is measured by utility; that is to say, that the loss or destruction of utility in the production of each commodity constitutes the cost of producing it. In order to appreciate the full bearing of their doctrine, we must take their whole reasoning into account. It seems to be briefly this: The value of each commodity is determined by its marginal utility, or the utility of the marginal portion of it, the portion that would not find buyers if the price were a little higher. Mere means of production, such as iron and wool, having no direct utility of their own, have no value of their own. But they have a derived or attributed utility equal to that of their potential products; or, rather, to be accurate, equal to the utility of the marginal member or portion of their potential products. They have, therefore, a value attributed to them equal to the value of the commodities they can be used to produce. Now, when any means of production, thus valuable, are applied to the production of any particular commodity, there is a loss or destruction of value: the same means can no longer be applied to any of the other uses for which they had a fitness and a value. "Production, therefore, does not merely create value: it also destroys value." * This destruction of value in the production of each commodity constitutes the cost of production of the commodity.

Wool, for example, is a means for the production of coats, blankets, stockings, and a variety of other commodities. It has, in conjunction with the other requisite means of production, a derived utility and value equal to the utility and value of the marginal member or portion of the whole group of products to which it is applied. When wool is used for making a coat, it can no longer be applied to the making of stockings or blankets or any other woollen goods: its value for those purposes is gone, and this loss of value is an item in the cost of production of the coat.

* Von Wieser, *Der natürliche Werth*, p. 167.

But how, on these terms, shall we express the cost of production of the whole group of commodities for which wool is a means of production? We cannot do so by reference to the value of wool for any other purpose, for it has no other use. We can only say that wool has a value for the making of these goods, that this value is derived by anticipation from the goods themselves, and yet is at the same time an item in the cost of producing them. This must strike every critical student of the Austrian theory as a very strange conception of cost. Its strangeness becomes even more obvious when we state it in the other form so often used by its authors. In the sentence already quoted from Dr. von Wieser we are told that "cost is measured by utility alone." That is to say, the means of production, though they have no direct utility of their own, have a derived utility equal to that of their potential products. In the act of production this utility is destroyed, and this destruction of utility constitutes and measures the cost of production of the resulting commodity. In other words, the fitness of wool for the making of coats, blankets, etc., gives it an indirect utility for us; but, when we proceed to develop this utility by actually converting wool into blankets, coats, etc., its very fitness for these purposes becomes an item of cost to us!

In justice to Dr. von Wieser it must be said that he avoids putting his doctrine into just this form. He evidently perceived the incongruity of maintaining that the utility of a material for the making of a given commodity could be transformed into cost the moment the material is applied to that particular use. He is careful to explain that any material (*Productivelement*) which has but a single use lacks the manifoldness of relations that is necessary to the conception of cost.* Though, in such a case,

* *Der natürliche Werth*, p. 168. At this point Dr. von Wieser's view seems to differ somewhat from that held by the author of the "Positive Theory." The latter writer seems to hold that the value of the marginal product of each material fixes the value of the material, and that the value of the material so

the utility and value of the product are carried back by attribution to the material, yet the value of the material does not hold the relation of cost to the product. This must surely have suggested some doubts whether utility can be in any case a true element of cost. Obviously, the value of wool holds precisely the same relation to the cost of woollen goods in general, as the value of any material having but one use holds to its single product.

The importance of manifold adaptation for the conception of cost appears to be that when, for example, wool is used for the production of coats, we can think of its value for making blankets, carpets, etc., and can see that, when we use it in producing coats, we give up thereby the power of using it for any other of its possible applications. Apparently, Dr. von Wieser does not contemplate the value of wool as a general cost of all woollen goods, but as a cost for any particular sort of such goods. Which suggests at once the question how he would have us conceive cost in the general way. If we inquire as to the cost of coats, we are referred for answer to the value of wool for making blankets, carpets, etc. If we inquire as to the cost of blankets, we are in turn to think of the value of wool for making coats, carpets, etc. But what of the cost of coats, carpets, *and* blankets, and all other articles made from wool? If we must use the value of the rest to express the cost of each, how are we to express the cost of the whole group? Apparently, we can only say on this new theory of cost that the value of the whole group constitutes the cost of the whole group. If the value of the means of production be the attributed value of the potential commodities contained in them, and if the value of the means constitutes the cost of the commodities, it seems

fixed holds the relation of cost to all its products, the marginal as well as the rest. It is evident in any case that Dr. von Boehm-Bawerk either finds no cost at all for the marginal product or finds it in the value of the product itself. In other words, he seems to have left true cost out of account altogether.

to follow that cost, as a general phenomenon, is indistinguishable from value. If utility be the measure of cost, then is cost, as a general conception, identical with utility. It is robbed of all independent significance. The unavoidable conclusion seems to be that the Austrian economists, in all their discussions of cost, have really not discussed cost at all, but the relations of value between different "orders" of materials and products.

In order to make the point as clear as possible, let me ask how the Austrian economists would have us conceive of the cost of the whole mass of commodities produced in the Austrian dominions during the past year? Or, in order to avoid all chance of perplexity by reason of international trade in materials, let us substitute the civilized world for the Austrian dominions. They will not, I suppose, controvert the proposition that there is such a thing as cost of production in this general sense. In fact, it would be an easy matter to show that it is only in a sense that easily lends itself to this universal conception, that cost of production has real significance for human welfare. Unless we have taken cost in a way that makes it possible for us to speak of the general lowering of cost through improvements in the arts of production, we may be sure that we have not taken it in its true sense at all.

If I understand correctly the Austrian theory of cost (which, of course, I do not assert), it seems to me to be incurably deficient on this side, and therefore on all sides. It seems to be at best a somewhat disguised and sublimated form of employer's cost, which, as may easily be seen, is strictly not cost of production at all, but cost of acquisition. As Dr. von Wieser states it, the cost of any given commodity is apparently not to be sought in the process of producing the commodity itself, but in the value of the other product or products that might have been produced by the same means of production. He seems to say that the existence of coats is the occasion of

cost in the production of blankets, and the existence of blankets is the occasion of cost in the production of coats. If wool had no use for us except as material for coats, its value, however great, would not be an item in the cost of production of coats. He finds it necessary to look for the conception of cost elsewhere than in the production of the very thing whose cost you wish to ascertain. Cost, as he views it, insists on being something or belonging to something that might have been, but is not. When you try to grasp it, to attach it to a real commodity, and to measure it as a definite tangible quantity, it eludes you, and retires to the region of the might-have-beens. And when you raise the question of aggregate cost, when you ask whether commodities in general are or are not produced at a less cost now than they were a hundred years ago, this new view of cost offers, so far as I see, no sort of test for discovering the answer. The value of the means of production being at once the value and the cost of the products, we have no expression for that general reduction of the cost of all commodities that has been brought about by modern improvements in all lines of production. Since a general fall of values is impossible, a general lessening of cost becomes impossible also. Since the "value of labor" rises as its product increases, and since the value of labor is the great item in the Austrian cost-account, it seems to follow that increase in the general productiveness of labor does not, on this new theory, imply a reduction in the cost of producing commodities.

The classical conception of cost may not be without flaw, but it has at least the merit of addressing itself to those features of production that men must always and everywhere *feel* as cost. The cost that comes home to producers in the form of tired muscles and tedious waiting for the enjoyable fruits of labor, is not one that finds expression in terms of utility or value. It looks to the production of things that have utility and value: it is itself,

however, the conscious sacrifice of present ease and enjoyment for the sake of obtaining "utilities fixed and embodied in material objects." And, after all has been made that can be made of the Austrian theory of cost, this other very real cost remains to be considered. It will refuse to be dropped out of the economic horizon so long as men regard labor and waiting as burdensome sacrifices. Finally, the observed tendency of value to conform to cost in this sense will have to be explained by economists; and those who maintain that value is fixed by marginal utility have still a good deal of explaining to do under this head.

II.

The doctrine of marginal utility undoubtedly expresses some important economic truths to which the classical theory failed to give due prominence; and we all must acknowledge our indebtedness to the Austrian economists for drawing attention to these neglected areas of the economic field. Their mistake lies in claiming too much for the new principle. Marginal utility is the undoubted key to some things, but not to all things. The principal thing claimed for it is that it governs the exchanging ratios of commodities. That claim I believe to be quite inadmissible.

The first thing that strikes one in the Austrian treatment of value is the assumption it makes as to the motive that leads men to exchange commodities. Exchange of products is treated with little or no reference to division of labor. It is represented as a transaction by itself, entered into by the two parties with a view to profit. Each parts with a commodity of less utility to him, and gets in return a commodity of greater utility to him. The gain in utility on each side constitutes the gain or advantage of the exchange. The conditions of comparative

utility under which exchange is possible by reason of offering this gain, and those under which no exchange can take place because there is no room for gain, are explained and illustrated at considerable length, but without reference to the great industrial fact that creates the necessity of exchange. The whole treatment strikes me as a remarkable example of economic near-sight. It ignores the question how and why men constantly find themselves in possession of things of lower utility for them than the things their neighbors have.* It proceeds exactly as if the good fairies, from time to time, filled one man's house with coats of all sorts, another man's with shoes of all sizes, a third man's with wheat, and so on. If commodities came to men in that way, this new view of exchange and the marginal utility theory of value would be thoroughly sufficient and satisfactory. But in the world as we know it the gain of exchange is not to be found in any comparison of the utilities given and received. The whole gain lies back of the exchange altogether, in the immeasurable increase of the productiveness of industry that arises from division of labor. The act of exchange is but the closing stage in the production of commodities by that method. The gain is in the method, and is purely mechanical in its nature: it is the gain of having more commodities for our labor, not of having commodities we prize more. The necessity of exchange, so far from being in itself a source of gain, is the one serious drawback to a plan that would otherwise be nothing but perfect gain.

It is natural that a theory of exchange which leaves production out of account should lead to a theory of value that leaves cost of production out of account. But it is very unlikely that any theory of exchange value can be satisfactory if it fail to connect exchange with its real

*Of course, I do not mean that the Austrian economists do not speak of division of labor, or that they do not perceive its relation to economic exchange. All I mean is that they do not use these facts as a vital and fundamental part of their theory of exchange value.

basis in production. When the brick-maker offers bricks in exchange for the general assortment of commodities he needs, our theory of his action and motives must cover the whole case; must not forget how it comes to pass that a man needing a hundred other things, but not needing bricks at all, has nevertheless produced bricks, and nothing but bricks. If we leave out of sight, even for a moment, the one great fact that the man has chosen brick-making simply as a method of getting the general assortment of needful commodities, our theorizing is likely to run wide of the realities of the case. The final utility theory seems to me to be chargeable with this defect. It cuts off exchange from its true occasion and motive, and then invents for it a motive that is never in the minds of the exchangers. Bricks have simply no utility for the brick-maker: neither have shoes for the shoemaker, nor coats for the tailor. The elaborate balancing of utilities which the brick-maker is supposed to make, between his own bricks which he has never dreamed of using for himself, and the shoes, clothing, bread, meat, fuel, etc., that he has hoped to get by making bricks, has to my mind a very unreal character. I think it exists only in the imagination of the new theorists. This point was touched on in my notice of Boehm-Bawerk's work. Dr. von Wieser, in his defence of the Austrian theory, makes the following reply to this objection:—

Professor Macvane is right in showing that, under the supremacy of the division of labor, the products very frequently, if not generally, have no value in use at all to the producer who wants to sell them. He thinks that our theory has not taken this fact into account. But in this he is quite mistaken. We have taken it into account, and it is in complete harmony with our theory of exchange.

Although the commodity has no value in use to the seller, yet the price which he receives has an indirect value in use to him, since it enables him to buy goods of direct value in use. On this account he is influenced by those motives which, in our opinion, lead to the exchange. We presuppose a difference between the value in use of the

article received and that of the article given in exchange. This difference does not disappear when the article given in exchange has a value in use equal to zero, but rather reaches its maximum in this case.*

This answer seems to me to be only a restatement of the objection. The objection is that, since the thing parted with has no utility for the giver, it is idle to assume a balancing of utilities in his mind between the thing he gives and the things he receives. It must be, by the nature of the case, a balancing between a utility of zero and a utility of ten or of ten thousand. In other words, there can be no balancing at all. But we are now told that, although the commodity parted with "has no value in use to the seller, yet the price which he receives for it has an indirect value in use to him, since it enables him to buy goods of direct value in use." That is to say, though the commodity he sells has no utility to him, yet the goods he gets in exchange have utility for him. But this is the objection itself, and not an answer to it. For how can there be in the mind of each exchanger that nice balancing of utilities between the thing given and the thing received, which the Austrians assume and elaborate so carefully, when there really is nothing to balance? What justification is there for those numerical scales representing the comparative utilities of the products to be exchanged to the two exchangers? If, as Dr. von Wieser admits, the scale for one of the commodities on each side ought to have no number but zero, what is there left of the scales? What of the doctrine of *Tauschfähigkeit*, of the weak sellers and the strong sellers, of the pairs that can and the pairs that cannot exchange with profit? If profit be the motive in exchange, and if profit be reckoned on the Austrian principle, is not all that the brick-maker gets for his bricks, be it much or little, profit, and nothing but clear profit?

* *Annals of the American Academy of Political and Social Science*, March, 1892, p. 49.

Are not all sellers of maximum strength, on that test of strength, in so far as they are making the exchanges required by division of labor?

Dr. von Wieser reproaches the Ricardian theory with offering no explanation of exchange. "According to Ricardo, articles of equal cost have equal value. What inducement is there to exchange articles of equal value?" This singular question reveals, more clearly than whole pages of description could do it, the profound contrast between the Austrian way of looking at exchange and the way to which English and American economists are accustomed. Dr. von Wieser approaches value from the subjective or psychologic standpoint. In his treatment of it he expressly assumes that the supply of each commodity exists without production; and he explains that the natural value of commodities, according to his conception of it, is "value as it would be if an industrially highly developed community existed without exchange and price." * Commercial value — that is to say, value in the only sense with which English and American economists have concerned themselves — has but slight interest for him. His motive in considering it, even in bare outline, is merely to give the necessary background of reality to his discussion of the true natural value that is independent of commerce, and rests on marginal utility pure and simple.

Adherents of the classical school can have no sort of fault to find with attempts to sound the depths of subjective or psychologic or intrinsic value. We have left that field uncultivated, contenting ourselves with the entirely practical side of value. We have not troubled ourselves at all with the question how much anybody cares for the commodity he has produced, or for the various commodities he wishes to get in exchange for it. We have treated exchange as a simple necessity of the productive system,— a necessary part or stage of production by division of

* *Der natürliche Werth*, p. 24, note, and p. 37.

labor. Accepting exchange as a simple necessity, we have not seen any need of assigning a motive for it. We have assumed that, when we have shown the advantages of division of labor, we have given a sufficient motive for the unavoidable sequel of production on that plan,—exchange of products. We have concerned ourselves only with the question, What determines the quantity of other products each man can obtain in exchange for his own? This has been for us the problem of value, and in the solution of it we have rested on the principle of cost. Viewing each man's production of one thing as a means whereby to obtain the many things, and assuming the necessary freedom and intelligence on the part of producers, we have argued that the action of intelligent self-interest must ordinarily keep the terms of exchange in rough accordance with the rule of equal cost for equal cost; that our brick-maker may ordinarily hope to get for his day's product in bricks a general assortment of other things that have cost, in the lump, about the same outlay of labor and waiting. That thesis seems to us to be in accordance with justice, to be a reasonable conclusion from undoubted premises, and finally to be substantially borne out by daily observation in practical life.

When we say that the rule of equal cost is the regulator of value, I hope it may be clear to Dr. von Wieser that we use value in this practical sense. And I am not without hope of convincing him that the classical theory of exchange value is still true and unshaken; also, that the theory of marginal utility, so far from being a substitute or a rival for the accepted theory, is merely a subordinate principle, quite in harmony with it, and, indeed, throwing needful light on one phase of its action. The Austrian economists, with all their keenness and ingenuity, have, as I think, entirely overrated and misjudged the bearing of the marginal utility principle. They have taken it for a rule of value, whereas it never can do

more than determine the quantity of each commodity to be produced.

In my notice of Dr. von Boehm-Bawerk's work I ventured to suggest that this is the real function of marginal utility. "As I read Dr. von Boehm-Bawerk's exposition of the new doctrine, it seems to me that he is really not explaining why commodities exchange for each other in certain proportions, but is dealing with the question why, as between things having the same cost, men choose the one rather than the other, or choose to have much of one and little of the other; why, when its productive capacity increases, a community chooses to enjoy its increase of spending power in certain forms rather than in other forms; why, in a word, the proportional demand for commodities is what it is."

This suggestion seems to have escaped Dr. von Wieser's notice. The point needs fuller elucidation than it could receive in a short article where wages, not value, formed the chief subject of discussion. I wish here to develop it more fully, for I believe it will be found to contain the whole secret of the marginal utility doctrine.

In order to clear the ground, let me repeat the necessary truth that in this whole matter of exchange and value we have to keep production steadily in mind,— this, too, not as the Austrians seem to conceive of it, but as it actually takes place by division of labor. The Austrian writers commonly speak as if the possession of "means of production," in which they include labor, gave each man the power to produce any and every thing. Of course, they do not mean that; yet they do not sufficiently keep in mind the all-important fact that the individual producer is, in civilized industry, confined to the production of a single article. Even if he should change his occupation, he is still confined to a single product. The whole subject of exchange and exchange value is involved in this one fact. The individual worker produces of course to supply his

own wants; but the precise thing he produces has to go to others, has therefore to suit the desires or the demand of others.

If it were possible for the individual to produce directly the very things he himself wishes, it is very clear that he would have continually to decide for himself the very important question, How much of this particular commodity shall I produce? In deciding the question in each case, he would have a somewhat complicated set of considerations to guide him. On the one side, he would have in mind the degree of satisfaction to be derived from this particular commodity as compared with others, the comparative utility of it. Here would come into play all the balancings and scales of utility with which our Austrian friends have made us so familiar. But, clearly, our producer would have another set of equally potent considerations in mind. His whole productive capacity being limited, he would wish to apportion it among the different commodities in such a manner as to afford him the maximum of satisfaction in return for his exertions. In doing this, he would have to balance, not merely utility against utility, but cost against cost. Nature fixes for him the terms on which he can obtain each commodity. Some of the most desirable commodities *in se* he might have to forego altogether, because of their high cost. Of other highly desirable commodities he might find himself unable to afford more than a little,—again on the ground of high cost. He might find it expedient, in view of all the circumstances, to devote himself mainly to the production of things having a low degree of utility, measure for measure, as compared with others, because in these the larger yield more than compensated for the difference in desirableness. In the case of each product, the point of marginal utility would be reached when he should say to himself: "I can do better than go on producing more of this article. In the time I should take to produce another measure of this

I could produce such and such a quantity of that other, which would be more useful for me." The thing to be noticed particularly is the part necessarily played by cost in determining the point of marginal utility. I call special attention to it because the Austrians seem disposed to ignore it. The producer's decision of the question whether to produce this commodity or that, how much to produce of commodity A and how much of B, can never be based on considerations of the desirableness of the commodities in themselves, independently of the terms on which he can obtain the one or the other. This is so palpable a truth that I suppose no argument is needed in support of it.

Now, under division of labor, each producer loses this direct control over the production that is to supply his own individual wants. He pools his productive exertions with the rest of the community. The direct product of his own labor goes for the most part to others; while he looks, for the satisfaction of his own wants, to the things other men have to give him in exchange. But I suppose nobody will contend that division of labor changes the individual producer's estimate of the different commodities. He will, no doubt, have indefinitely greater command over commodities than he could have had by producing directly for himself; but he will wish to select his articles, and the proportions of each, precisely as if he were able to produce them all directly for himself, in the same quantities as he can now obtain them by division of labor. The cost of each article will still be the controlling factor in settling the point of its marginal utility for him; but the cost to him is now a cost of acquisition. It depends on the terms of exchange between his own product and the products he desires. In other words, it depends on the exchange values of the several products. Here we begin to see a totally different relation between value and marginal utility from that presupposed by the Austrian

economists; the fact, namely, that exchange value helps to determine the point of marginal utility instead of being determined by it.

When a producer offers his own product, on the basis of equal cost for equal cost, in exchange for certain quantities of the products of other men's labor, he takes the only course open to him for carrying out, in our complicated system, the choice of commodities he would make if he were able to produce the given quantities of these things directly for himself. His choice, both as to commodity and quantity, is governed by precisely the same considerations in the one case as it would be in the other. How far he is liable to be disappointed in his natural expectations by failing to get exchange of products on these terms, and how far his original choice may be modified by finding the terms more or less favorable in one direction or another than the rule of equal costs would entitle him to expect, are undoubtedly questions of great practical moment for the individual producer. It may be freely conceded—in fact, the classical economists have always conceded—that the control of cost over value is only indirect, and is liable to be defeated in greater or less degree by the inevitable frictions of the industrial system, and especially by lack of intelligence and the spirit of self-help on the part of individual producers. So far as the law of cost is thus impeded in its action, the value of a commodity may be, even permanently, above or below its natural or theoretically just level. But, even in such a case, it is at best only a half-truth to say that the value is settled without reference to cost; for even here the cost of production has a very real control. There is a friction allowance, a clog on its action; but it acts nevertheless. Without its action, the value might be anything conceivable; for marginal utility can never set the value of anything, independently of the supply, and the supply is most certainly not itself fixed by marginal utility. The truth

seems to be that in these cases, just as in the ordinary case, the function of marginal utility, as distinguished from simple utility, is rather to set a quantitative limit to the demand at a given value than to determine a particular value itself. For it is clear that, whatever the terms be that the market offers him, the individual exchanger will adjust his "demand" for the products of other men's labor, precisely as if he were producing the same things for himself at a cost of production equal to that of the amount of his own commodity he must give in exchange for them. The point of marginal utility for each commodity — the point at which he will say to himself, "I can do better, as values stand, by taking such and such other things than by taking any more of this one"— will be determined by precisely the same considerations in either case.

If this be true, the obvious conclusion is that marginal utility plays a very different rôle in the industrial system from that contended for by Dr. von Wieser. So far from controlling exchange value, it is itself controlled by exchange value. Its sphere of action is to determine the *comparative demand for the various commodities* in any given conditions of exchange. The conditions of exchange depend, for their normal adjustment, on the comparative cost of producing the various commodities. The familiar principle of competition, as necessary to the Austrian theory as to the classical, leads men to produce and offer in exchange those commodities that promise best returns for their labor and waiting. This tends, so far at least as concerns the great mass of products, to keep the terms of exchange in tolerable harmony with the principle of equal cost for equal cost. Every man who contributes anything to the general stock of good things has a very wide choice as to the precise good things he shall take for himself. His choice, and the aggregate choices of all others in the like case, indicate the relative quantity of each commodity the community as a whole

wishes to obtain for its labors. But these choices do not fix the terms on which men can obtain the one commodity or another. That is a matter fixed by natural laws and the state of the mechanical arts,—in other words, by the cost of production of each commodity. No tables of comparative utility however elaborate, no calculus of satisfactions and subjective values however profound, can alter by a hair's breadth the terms on which the producer of each article may obtain it from nature. Neither, therefore, can such considerations affect greatly the terms on which, under a régime of industrial freedom, men shall ordinarily be induced to produce any given article for other men.

The Austrian economists write as if the adherents of the classical theory believed that cost "produces" value, or that things have value just because they have cost labor and waiting,—as if we announced that anything on which anybody has spent labor and waiting must for that reason have value. This is strange, seeing that every classical economist, from Ricardo down, has taught that utility is a necessary condition of value. If a thing have no utility for men, of course they will give nothing for it. Neither will they, except by mistake, produce such a thing. We may go farther, and say that, unless men want a thing sufficiently to submit to nature's terms of cost as a condition of having it, they will not produce it. Conversely, if men do want a thing sufficiently to be willing to endure the necessary cost for the sake of having it, they can have it, up to the limit of their productive power. These elementary propositions I suppose to be tacitly assumed, even if not expressed, in all our discussions. The only real question as to utility is not whether things must have utility in order to have value, but whether utility is or is not the regulator of exchange value.

Personally, I am unable to see anything in the principle of marginal utility that is not entirely in harmony with the old doctrine of cost as the regulator of value. It goes

to supplement and enrich economic theory at the point of the relations between demand and production. It gives us, in the first place, a new and more fruitful conception of the limitation imposed on production from the side of demand,—the conception of a marginal utility for commodities in the mass, at the point at which all producers decide that rest is preferable to additional commodities of any sort. This is the point Mill had dimly in mind when, in arguing against the fallacy of general overproduction, he said that the laborers, if they had no further desire for commodities, "would take the benefit of any further increase of wages by diminishing their work." * Secondly, it gives us a new and thoroughly philosophical view of the mental processes by which the individual, and consequently the whole community, determines the apportionment of his and its total demand among the various commodities. Nature and the arts of production fix for us the terms on which we can have each commodity. Our own sense of the comparative utility of each determines how much of it we care to have on those terms. Down to the point of its marginal utility, we take it in preference to other things. At the point of its marginal utility, we turn to other things, or rest from our labors, in preference to getting more of it at the necessary cost.

All this is as simple as it is true, and I think it expresses the whole function of marginal utility. It is only the complicated character of our industrial arrangements that makes the principle appear to have a wider or a different function. Because the exchange value corresponds to the marginal utility of things, it is easy, in the complicated case, to mistake the actual relation of the two, and to conclude that the marginal utility fixes the value. But a full consideration of the matter must disclose the more rational explanation of the coincidence. That we are willing to have a certain quantity of a thing at a given

* Book III. chap. xiv. § 3 of his *Principles*.

value can never be the reason why the value should stand at that level. So far as final utility is concerned, each commodity might have any one of a thousand values,— anything between zero and a value so high as to exceed its total utility to anybody. At any given value between these extremes a corresponding point of final utility would readily develop itself. Men would take a certain quantity of it at that value, in preference to other things. The difficulty, the only difficulty, would arise in adjusting the supply to the demand, on those terms. For the supply there is, of course, no source but production; and there no question of utility can alter the terms on which, in the last resort, the commodity is really obtainable. That among all the possible values there is one that corresponds to the cost of production, and that there is a final utility point for the article corresponding to that value, do not in the least indicate that the value is determined by the marginal utility. They show only that, at that cost, men want a certain quantity of the article; that they regard it, up to that point, as the most desirable thing to have in return for their labor and waiting; and that beyond that quantity they do not so regard it, but take other things in preference.

If any doubt remain in the mind of any reader, let him consider what usually takes place when a new discovery or invention gives us a commodity at a reduced cost. The production of the article is increased, and the value declines. With the decline of the value comes a shifting of the point of marginal utility: people want more of the commodity than before. At the reduced value they are ready to use it in ways and for purposes that, at the higher cost, were not considered admissible. And so a new marginal utility is established at a lower level than the old. But is it reasonable to contend that the change in the marginal utility is the thing that determines the lower value of the commodity? Is it not clear, on the

contrary, that it is the lessening of the cost of production that has caused the decline of the value, and that it is the decline of the value, or cost of acquisition for the purchaser, that has evoked the lower marginal utility? In a word, marginal utility may tell us how much of a commodity men will take at any given cost and value. But for the determination of any particular value it can never of itself be sufficient, because it adjusts itself as readily to one value as to another.

The result seems to be that we must reject, so far at least as regards their main contention, the imposing web which the Austrian economists have woven with such wonderful ingenuity about the subjects of value and cost. And, if I were asked to indicate the precise point at which their initial misstep is taken, I should say it is probably to be found in their original assumptions as to the cost and value of the marginal product or portion of product. They build a great structure of reasoning on foundations which needed more careful scrutiny than they seem to have given them. The marginal product, on which everything turns, represents, as they tell us, the "last" or lowest use to which the requisite means of production can be *economically* applied, the last or lowest use that is "economically *permissible*." If they will examine carefully the content of this phrase of theirs, they will find, I think, that it involves a principle entirely at variance with their main contention. It seems to me to adopt, in a concealed form, the essential principle of the classical theory, and to rest on the working of that principle while denying its operation. Why, for example, is the use of iron for the satisfaction of a demand that puts a value of six shillings a hundred weight on it, economically permissible? Why is it not economically permissible to use it for satisfying a demand that values it at two shillings? It is not enough, for the needs of the Austrian principle, to answer that, at six shillings the hundred weight, employers may economi-

cally (*i.e.*, with ordinary profit) hire laborers to produce iron: whereas at two shillings they cannot do so. That is simply the classical theory, pure and simple. By falling back on that method of establishing a normal price for iron, the whole case is given up. That there is a "last" buyer who is just willing to give six shillings for the last hundred weight of iron "economically" produced, does not save the marginal utility doctrine in the least. The thing to be proved is that the willingness of this last buyer to give six shillings for the last hundred weight, *makes* it economically permissible to produce iron at that price. The Austrian economists seem to me to assume at the outset the very thing to be proved. And when, on this concealed assumption, they rear their extremely coherent and highly complicated theory of value, their whole structure is in the unhappy condition of being without solid foundations.

I cannot close this paper without saying that I should count myself very unfortunate if anything that I have written should give the impression of general hostility to the Austrian economists. While finding myself compelled to reject their main doctrine, I gladly avow myself, in manifold other respects, their grateful pupil. No one, I think, can study their writings without gaining much new light on economic theory. If, in speaking of the matters in which they seem to me to be in error, I have thought no reserves or palliative phrases necessary, the reason is that, in happy contrast with some other economists, the Austrian writers have shown themselves ready to receive honest criticism in the true spirit of science.

S. M. Macvane.

Harvard University, March, 1893.

THE CLASSIFICATION OF PUBLIC REVENUES.

Among the unsettled questions of the science of finance one of the most troublesome is that of classifying the different kinds of public income. Classification is indeed not of supreme importance: matter is always more essential than form. But correct classification is helpful in many ways. It requires logical criticism and rigorous analysis, and thus becomes a test of mental vigor. It conduces to accurate definition and prevents looseness of expression and confusion of thought. It may have important practical results in deciding questions of fact and in assigning definite values to doubtful categories. It points out contrasts and resemblances, and by eliminating or combining what is common often suggests a clearer conception of the subject-matter. Correct classification is, in truth, an essential condition of all scientific progress.

It has frequently been remarked that we must distinguish between historical and actual classifications. The whole class of lucrative prerogatives—the *Regalia* of the Teutonic kingdoms and of early fiscal science — were separated from the other categories of public revenues because of their commanding importance in all mediæval countries and their supposed points of difference: whereas well-nigh every recent writer of importance, even in Germany, has confessed that all of these prerogative revenues are capable of being classified under one of the other modern categories. So, again, the revenue from the incidents of feudal tenure played a great rôle in the classification of Blackstone and other early writers. The need of showing the composite nature of such revenues has been obviated by the disappearance of the tenures themselves. Finally, special assessments are a growth of comparatively recent

times. A classification of public revenues made some time ago might have safely ignored their existence; a logical classification of actual revenues would be incomplete without them. What concerns us here is a classification applicable to modern conditions.

I.

From the standpoint of the individual all contributions to government are either gratuitous, contractual, or compulsory. Every governmental revenue must fall within one of these three great classes. Individuals may make the government a free gift, they may agree or contract to pay, or they may be compelled to pay. The first method of securing revenue was at one time important, but its influence is slight to-day. The second and third methods correspond to the classification suggested by Adam Smith,* which has been widely adopted. Adam Smith says,—

> The revenue which must defray . . . the necessary expenses of government may be drawn either, first, from some fund which peculiarly belongs to the sovereign or commonwealth, and which is independent of the revenue of the people, or, secondly, from the revenue of the people.

That is, the government may act as a private individual would, possess lands or other revenue-yielding property, and engage in mercantile, financial, or industrial pursuits. As Petty, the author of the first systematic English treatise on taxation, put it in the seventeenth century, the state is in some places the common cashier, the common usurer, the common insurer, or the common beggar.† This is what the French call in the widest sense the rev-

* *Wealth of Nations*, Book V. chap. ii.

† William Petty, *A Treatise of Taxes and Contributions*, London, 1667, pp. 60, 61.

enue from the private and industrial domain of the state, and what the Germans term the private-economic income, I would suggest the term contractual income; for the government here puts itself in the position of a private person making a contract with another person. The payments all rest on an agreement between the two contracting parties, in sharp contrast to the payments which the government demands by virtue of the sovereign powers delegated to it.

We often hear of the distinction between voluntary and compulsory contributions, meaning by the former term the free gifts of the citizens. This distinction is not perfectly accurate. Contractual contributions are also voluntary, without being free gifts. In the case of the contract, the government agrees to do some particular thing in return. It leases the land, for instance, in return for the rent. In the case of the free gift, neither does the government undertake nor does the donor expect any specific action in return. And yet both payments are voluntary. We must hence distinguish not merely between voluntary and compulsory contributions, but between gratuitous, contractual, and compulsory contributions.

Thus far almost all writers are agreed. The difficulty arises when we desire to classify the various kinds of compulsory revenues and to draw the line between some of these subdivisions and the various kinds of contractual revenues. All possible combinations have been made, especially by recent German writers. I shall confine myself in this article to the pith of the controversy; *i.e.*, the subdivision of the compulsory contributions and the relation between some of the compulsory and the contractual revenues as, for instance, the charges made for certain governmental enterprises, like post-office, telegraphs, and the like.

The sovereignty of the modern state manifests itself in different ways in taking the property of individuals. The

government may exercise in turn the power of eminent domain, the penal power, the police power, or the taxing power.

The power of eminent domain confers on the government the right of taking private property at its discretion, and to an indefinite extent for particular uses. With the constitutional and moral limitations upon this power we have not to deal here, chiefly because the power is for the most part not a source of net revenue. The fact that in all free governments private property cannot be taken under this power except for public use, and even then not without just compensation, would in itself show that no net income to the state is contemplated. Yet such a revenue may accrue incidentally. For the benefits accruing to the government through the expropriation may conceivably be greater than the damage inflicted on the private individual. Revenue through expropriation is thus the first class of compulsory income.

The second sovereign power of fiscal importance is the penal power, or right of inflicting fines and penalties, known technically as the power of sanction. In one sense the penal power, or power of sanction, might be declared a part of the police, or regulative, power of the state; since every government regulation must carry with it the power of enforcing the regulation. But on account of the decidedly problematic fiscal importance of the police power it seems better to separate them. The power to adjudge fines and penalties, however, while often quite important as a source of revenue, belongs rather to penology and administration than to the science of finance. For the private property is here taken not in accordance with the needs of the state or with any principles of equality or uniformity or benefits or compensation, but solely as a punishment inflicted on the individual. The only limit to the fiscal significance of this source of revenue in free countries is the very vague provision, as in

the American Constitution, that excessive fines shall not be imposed nor cruel and unusual punishments inflicted. Fines and penalties thus form a class of compulsory revenues by themselves, levied according to definite but non-fiscal principles. It is obviously wrong to class them with fees, as Professor Wagner does, or to ignore them entirely, as Professor Bastable does.

The third sovereign power of the state is the police power, or power of regulation. This power has played a great rôle in American jurisprudence. Yet I make bold to say that from the standpoint of the science of finance the distinction drawn between the police power and the taxing power is to a great extent a fiction, referable to certain difficulties in American constitutional law and to a lack of economic analysis on the part of our judges.

The commonly accepted distinction is that the police power is for regulation and the taxing power for revenue. One form of the argument is that advanced by authors like Mr. David A. Wells, who argue that a so-called tax which looks to anything besides the securing of revenue is not a tax, but an unconstitutional exercise of the taxing power. But even adherents to the distinction between the police power and the taxing power, like Judge Cooley, confess "that, in the apportionment of taxes, other considerations than those which regard the production of a revenue are admissible, and that the right of any sovereignty to look beyond the immediate purpose to the general effect cannot be disputed." * The position of Mr. Wells is the exact opposite of that of Professor Wagner, who includes in the very definition of a tax the "socio-political" element or the duty of regulating and correcting the distribution and use of private property.† The one would refuse the name "tax" to an imposition looking to anything else than mere revenue: the other ought logi-

* Cooley, *Taxation*, 2d ed., p. 587.

† Wagner, *Finanzwissenschaft*, ii. (2d ed., 1890) p. 210.

cally to withhold the name of tax from an imposition *not* looking to anything else than mere revenue. The two positions are mutually exclusive and equally extreme.

On the other hand, the distinction of Judge Cooley is almost quite as untenable. Cases where the primary purpose is regulation, he thinks, are referable to the police power; cases where the primary purpose is revenue are referable to the taxing power. This would throw the whole subject into confusion. Mr. Cooley himself confesses that import duties with incidental protection are taxes. But suppose, as has often occurred, that they are protective duties with incidental revenue. Are they any the less taxes on that account? How about the tax on bachelors, which was imposed for the express purpose of diminishing celibacy? How about our ten per cent. tax on State bank notes, imposed avowedly to destroy the State bank issues? How about the American tax on oleomargarine, confessedly of a regulative nature? How about taxes on spirituous liquors in the shape of liquor licenses, to regulate and diminish the liquor traffic? How about the mass of indirect taxes enacted in consequence of sumptuary laws to check extravagant consumption? How about certain inheritance taxes, whose imposition is demanded on the express ground that they will limit fortunes? How about Henry George's single tax, whose only *raison d'être* is the attempt to change the existing distribution of wealth? Shall we call the Indian duty on opium a tax, and refuse the name to the American internal revenue opium charge, because India looks primarily to revenue, and the United States to regulation? Shall we call the French *impôt des patentes* a tax, and deny the name to the analogous license or privilege taxes in some of our Southern commonwealths, because in the latter case the object is sometimes distinctively regulative? In fact, if this is to be our line of cleavage, we must at once reconstruct the science of finance and remove from the class of

taxes whole categories of impositions to which no one has ever thought of denying the character or appellation of tax.

The confusion in the American law is at once complimentary and uncomplimentary to the judiciary. It is complimentary in the sense that our judges, when brought face to face with the conflict between constitutional limitations and the demands of social evolution (or what is known in legal parlance as public policy), have sought to remain true to their function as the final interpreters of social progress. But this they have been able to do only through legal fictions and divergent decisions. Any one who has studied the American law of taxation as a whole must have become painfully conscious of the hopeless contradictions among the various States on many important points. This is due in great measure to the fact that the constitution or laws of one State by implication forbid what the constitution or laws of another State expressly permit. In order to take an actual case, which is perhaps in line with public policy, out of the range of the legal inhibition, the courts of the first State are forced to adopt an interpretation wholly unnecessary in the second State. Thus the continuity of social development is preserved, even at the sacrifice of legal consistency or uniformity. For instance, to take only a few cases from the particular topic here under discussion, in New York street-car licenses are held to fall under the taxing power, while in Pennsylvania they are put under the police power, simply because in the particular cases involved it seemed to be a matter of equity to uphold or object to the imposition in question.* The payment was the same, both in fact and from the standpoint of public finance,—$50 in each case; but the attempt to make conflicting laws conform to a divergent public policy has brought about a contradiction. So

* *Cf.* 2d Avenue Railroad Cases, 32 N. Y. 261, with R.R. Co. *v.* Philadelphia, 58 Pa. 119. What was held "reasonable" in one case was declared "unreasonable" in the other.

the whole system of high license or liquor taxes is in some States brought under the taxing power; but in other States, because of certain constitutional difficulties, it is put under the police power.* The police power has been to this extent a legal fiction to enable the court to uphold what could not well be brought under the taxing power, while conversely in the leading case of Youngblood *v.* Sexton † the liquor tax was upheld under the taxing power because there was a constitutional obstacle to its being put under the licensing or police power. The police power is of legal importance in the United States largely because of the peculiar principles of American governmental relations, whereby the local bodies are deemed to have only those powers expressly delegated to them, in contradistinction to the European continental method where local bodies possess, in certain respects, all powers not expressly withheld from them.‡ Many of our cities and towns had no taxing power; and even when they have the taxing power, it is strictly construed. The courts have been compelled to uphold much under the police power that under other and more favorable conditions they would and could uphold under the taxing power.

On the other hand, there is an element which is not quite so complimentary to our judges. The courts have frequently confused taxes in the narrower sense with the exercise of the taxing power in the wider sense. As we shall see, there are various ways in which the taxing power may manifest itself: taxes in the narrower sense are only one form. Special assessments have been almost universally upheld as an exercise of the taxing power, and yet sharply distinguished from taxes in the narrower sense. Yet in a leading case sidewalk assessments have been de-

* Burch *v.* Savannah, 42 Ga. 596. *Cf.* 50 Texas, 86. † 32 Mich. 406.

‡ Goodnow, "Powers of Municipalities respecting Public Works," *Publications of the American Economic Association*, ii. pp. 72–79. Professor Goodnow terms these the systems of legislative and of administrative control respectively.

clared police regulations,* although as a matter of principle they do not differ in any respect from other special assessments upheld under the taxing power. The court has simply confused taxes with the taxing power. It is utterly impossible to see any difference between the various cases of sewer and levee assessments quoted by Mr. Cooley as an exercise of the police power and the cases of sewer and levee assessments quoted by him in another chapter as falling under the taxing power.† The whole distinction rests upon a confusion. So, again, in the case of license fees. Both taxes and fees are an exercise of the taxing power. Yet because it has frequently been deemed necessary to uphold license fees by distinguishing them from taxes, many of our courts have declared license fees not an exercise of the taxing power at all, but of the police power, thus confusing taxes with the taxing power. There is a decided line of difference, as we shall see, between a license fee and a tax; but it is not the line drawn by our courts. It is this groping after the real distinction between fees and taxes, as explained below,‡ which has led our judges, not trained in economics, to draw the line between payments under the police power and payments under the taxing power. The distinction between fees and taxes is not synonymous with the distinction between the police power and the taxing power; for there are many classes of fees, like court fees, fees for legal documents, school fees, etc., which cannot possibly be put under the police power.

While, then, it may be true that from the legal point of view it is expedient to distinguish between the police power and the taxing power, to say that the one is for regulation and the other for revenue; and while the constitutional importance of the police power, especially in the United

* Godard, Petitioner, 16 Pick. 504, 509, quoted by Cooley, *Taxation*, p. 589.

† Cooley, *Taxation*, pp. 588–591, compared with pp. 616–620.

‡ See below, p. 305.

States, is in many respects considerable,—yet from the economic and fiscal standpoint the distinction is wholly unnecessary. A tax is no less a tax because its purpose is regulation or destruction; and a fee or payment for regulation brings in just as much revenue as a precisely identical fee imposed primarily for revenue. The test from the standpoint of finance is not whether the payment is for regulation, but, as we shall see, whether the payment is large or small, or whether the payment is primarily or special benefit or for common benefit; that is, it is a distinction not between police power and taxing power, but between fees and taxes. Payments that are legally put under the police power are scientifically to be classed under the taxing power.

II.

We come finally to what is from the fiscal standpoint the chief sovereign power of the State,—the taxing power. The taxing power may manifest itself in three different forms, known respectively as special assessments, fees, and taxes. These three forms are all species of taxation in the wider sense, in so far as they differ on the one hand from contractual revenue or *quasi*-private income, and on the other hand from the other great divisions of compulsory revenue, like expropriation and fines. What is common to all three is that they are compulsory contributions levied for the support of government or to defray the expenses incurred for public purposes. That is the essence of the taxing power. But, although they are all forms of taxation in this wider sense, yet the difference between fees and special assessments on the one hand, and taxes in the narrower sense on the other hand, are so marked that they must be put in separate categories. Let us study their characteristics, taking up first those payments, like fees, tolls, costs, and charges, which may be summed up under

the general head of fees (the German *Gebühren*, the French *taxes*, the Italian *tasse*.)

The distinction between fees and taxes, although sometimes ascribed to Rau, is really much older. Adam Smith already speaks of certain expenses "which are laid out for the benefit of the whole society." "It is reasonable, therefore," he adds, "that they should be defrayed by the general contribution of the whole society, all the different members contributing as nearly as possible in proportion to their respective abilities." These, as he afterward explains, are taxes. On the other hand, he speaks of certain outlays, as for justice, for "persons who give occasion to this expense," and "who are most immediately benefited by this expense." The expenditures, therefore, he thinks, "may very properly be defrayed by the particular contributions of these persons"; that is, by fees of court. And he extends this principle to tolls of roads and various other expenses.* The "particular contributions" of Adam Smith, in contradistinction to the general contributions, are nothing but fees in contradistinction to taxes. In fact, we find the distinction already in Justi, several decades before Adam Smith. Justi, however, like the other Germans of his time, looked upon the *Regalia*, or lucrative prerogatives, as a separate class, and hence classified public revenues into (1) Domains, (2) Regalia, (3) Taxes, and (4) Casual Revenues, including prices and payments for special privileges.† Later on Rau gave these latter payments the name of *Gebühren*, or fees; but the essence of the distinction is to be found in Justi, and still more clearly in Adam Smith.

A fee, then, is a manifestation of the taxing power. It is a compulsory contribution for a service in which the element of public purpose must be present. But it differs from a tax in several important points.

* *Wealth of Nations*, Book V. chap. i., Part IV. (vol. ii. p. 402 of Thorold Rogers's edition). Compare Book V. chap. i., Part II. and III. *passim*.

† Justi, *Staatswirthschaft*, 2d ed., 1758, ii. pp. 95, 400–429.

First, a tax is levied as a part of a common burden: a fee is assessed as a payment for a special privilege. The basis of taxation is the ability or the faculty of the taxpayer. The basis of a fee is the special benefit accruing to the individual. In the case of a tax, it is true the ability or faculty may be influenced to a certain extent by the opportunities or privileges or benefits received. But the difference is the test. In the case of a fee, the benefit is measurable: in the case of a tax, the benefit is not susceptible of direct measurement. In the case of a fee, the particular advantage is the very reason of the payment: in the case of a tax, the particular advantage, if it exists at all, is simply an incidental result of the state action.

The question of special benefit was, it is true, originally of minor importance. The mediæval monarch exacted in the shape of fees and charges pretty much what he chose, disguising numberless exactions under the mask of payments for special privileges. But even there it may be said, not that the idea of benefit was absent, but that the monarch made himself the arbitrary judge of the benefits. That his despotic estimate often resulted in hardship does not alter the theory. Gradually, however, the idea of actual benefit came to the foreground, until it has finally become the controlling factor.

The real distinction between a fee and a tax in modern times can readily be grasped by taking those taxes which are in the greatest danger of being confounded with fees. Let us compare the various modes of paying for the use of the water supply in municipal life. In England the expenses are defrayed by the local water tax, known as the water rate. In other places, like New York City for example, the expenses are defrayed by a special water fee, which is popularly known, indeed, as the "water tax" (although its legal name is "water rate" or "water rent"), but which is none the less a fee. That is to say, in England the rate, or tax, is assessed on the general

basis of local taxation, which there happens to be the rent of real estate, but which in other countries might be property or income or any other recognized basis: in New York the fee (or so-called rate) is assessed not on the basis of the general property tax, but according to the consumption of water, as fixed either directly by water meters or approximately by the number and capacity of bathrooms, closets, hose, machines, etc. In the case of the tax, the individual pays, whether he uses much or little: in the case of the fee, he pays only according to the special benefit (either actual or presumptive) which he derives. The test in England is the general obligation to contribute to local rates: the test in New York is the particular advantage derived from the local service or deemed to be derived therefrom, and hence arbitrarily fixed. The contrast could not be greater. We must not confound special taxes with fees.

An adequate discussion of the distinction between a general tax and a special tax belongs to the question of the sub-classification of taxes in particular, and would lead us too far astray here. But we can say at all events this: a general tax, like the ordinary State or local tax in America, is not levied for any definite, particular expenditure, but is assessed for general governmental purposes; a special tax, like the English local rates or the local taxes in some American States, like New Jersey,* is assessed for the accomplishment of some special task to which the government is pledged, and is levied on a definite section of the population.† The water rate, the sewer rate, the poor rate, the lighting rate, etc., are each levied for the special purpose and on the definite class of taxables subject to the rate. But this special tax is none the less a

*Compare *Comptroller's Report* of the State of New Jersey for 1891, financial condition of counties, etc., pp. 1–87.

† These taxes must of course not be confounded with the so-called "special taxes" in some of our Southern commonwealths, which are known as license or privilege or business taxes in the other commonwealths.

veritable tax: it is levied for a public purpose, it is assessed on what is deemed to be the faculty or "means" of the tax-payer; and there are no particular benefits accruing to him as an individual. Even if he does perchance derive a benefit, it is not a special, measurable, individual benefit apart from the common benefit that the other members of the class derive. It is simply an incidental result of his share in the common benefit. In the fee, on the other hand, the special individual benefit is distinctly measurable and forms the basis of the assessment, although it may be a presumptive, and not necessarily an actual, benefit. Thus, while a special tax differs in some points from a general tax, it differs in far more important points from a fee.*

A second distinction between fees and taxes is that a fee does not normally exceed the cost of the particular service to the individual. This, however, although commonly much made of, is of subordinate importance. For, in the first place, it can obviously apply only to those fees paid in return for some positive work done by government. The government, indeed, must always give something in return for a fee; but in many cases it may give only a permission to do something,— a permission which costs almost nothing, and for which a considerable fee may be exacted. The controlling consideration here is not cost, but measurable special benefit. Historically, we

* Professor Bastable, *Public Finance*, p. 364, errs in stating that the English local "rates" are "measured for each payer by the benefit of the service," and that "local taxation should be in proportion to advantage." That is precisely the distinction between local or special taxes, on the one hand, and fees or special assessments, on the other. English local rates are not levied according to particular advantage. See the official authority quoted below, p. 315. *Cf.* also the leading English case of Rex *v.* Mast, 6 T. R. 154, which decides that the sewers' rate, etc., is assessed on the same basis as the poor rate, the principle of which is that "each inhabitant should contribute according to his ability, which is to be ascertained by his possessions in the parish." See also Boyle and Davis, *The Principles of Rating*, p. 99. The fact that personal property has been excepted by statute from liability for local rates does not change the principle.

know that these special charges were made entirely irrespective of cost.* But, even in the case of a positive action by the government, cost is simply another method of measuring the special benefit.† This has been entirely overlooked by all writers, but is none the less true. In all competitive private enterprises the benefit to the individual is the cost. That is, the amount which the individual is willing to pay — and he is the best judge of the benefit to be derived — is the price ; and the price is fixed ultimately by the cost of production. The whole modern theory of marginal utility as the regulator of price is simply a way of putting the degree of special benefit to the individual ; and the true theory of price confesses that the marginal utility in competitive enterprise resolves itself ultimately into cost of production. The benefit to the individual, therefore, is the cost. As soon, however, as we have a private monopoly, the benefit to the individual diminishes in proportion to the sacrifice he is compelled to make in paying more than the cost of production ; and the excess of price over the normal benefit (as measured by cost) represents in so much a tax on the individual.

Now, the same is true of governmental action. It may, and often does, happen that the government is not actuated by motives of profit, and sells its services for cost, like a private competitor. Then special benefit to the individual and cost to the government are synonymous. But, if the government seeks to make a monopoly profit, and charge more than cost, then as before the special benefit to the individual may be said relatively to diminish, until finally the exactions become so great that the special

* Professor Brentano calls attention to this historical fact. *Cf.* Faber, *Die Entstehung des Agrarschutzes in England*, p. 58. But they both fail to notice the points made in the text.

† The cost referred to here is at once the cost to the individual and the cost to the government. They are synonymous, because the government under the supposition gives its services for cost.

benefit is merged in the special burden, and the charge becomes not a counter-payment, but a special tax. On the other hand, the government may decide to charge less than cost, or even to offer its services gratuitously, in which cases the special benefit to the individual may gradually be swallowed up in the common benefit. In such a case, the very reason of the gratuitous service is that no special benefit exists, or that it results only incidentally from general state action. Thus we see that special benefit to the individual is correlative with cost to the government. If the charge is less than cost, the special benefit is *pro tanto* converted into a common benefit, until finally there is no charge, because no special benefit. If the charge is more than cost, the special benefit is *pro tanto* converted into a special burden, until finally the charge is all tax, because it is all burden, and no special benefit (except incidentally as the result of all special taxation).

This point of view helps us out of a difficulty as to the line of cleavage between fees and taxes. Thus, if a charge is made for the cost of judicial process, the payment is a fee, because of the special benefit to the litigant. If no charge is made, the cost of the process must still be defrayed by general taxation; and the litigant pays his share in general taxes. If the charge is so arranged as to bring in a considerable net revenue to the government, the payment by the litigant is a tax,— not a general tax on all tax-payers, but a special tax on litigants, like the tax on lawsuits in some of our Southern commonwealths. But the character of fee has disappeared only secondarily because the principle of cost has been deviated from, but primarily because the special benefit to the litigant has been converted in the one case into a common benefit shared with the rest of the community, and in the other case into a special burden. The same is true of other fees. And it is the failure to grasp the basis of the distinction that has confused so many writers.

A third distinction between fees and taxes may be found in the conditions attached to the service which the government performs. It may be said that in the case of a fee the government does some particular thing in return, while in the case of a tax there is no special service. The particular thing done by government in return for a fee may be either the display of some positive energy, as in the case of the water supply, or it may be a simple permission to do something. The government may create direct utilities, or it may permit the individual to create utilities; and in each case it demands a return for the privilege. But, in the case of a tax, the government simply refrains from doing; or, if it does anything at all, it does it only in the sense of general governmental action. This distinction will apply even to so-called "special taxes," as over against "general taxes." For, even in the case of a special tax, the government does not pledge itself to do anything especial for the individual as an individual. It agrees to do some special thing for the community or for the special class involved, but it is wholly immaterial to the government whether the individual avails himself of the incidental advantage accruing to the class as a whole. Even in the case of "special taxes" we are not confronted with the principle of give and take, or *quid pro quo*, in the sense of an individual bargain.

A further distinction that has been very fruitful of confusion is that between business licenses or fees, and business taxes. The legal terms applied to the payments must not lead us astray. For instance, the identical charge levied on certain retail businesses is called in various American States a fee, a license, a license fee, a license tax, a special tax, a specific tax, a privilege tax, an occupation tax.* The same payment exacted from insurance companies is called sometimes insurance fee, insur-

*Compare Seligman, *Finance Statistics of the American Commonwealths*, 1889, pp. 88–96.

ance license, insurance license fee, insurance tax, insurance license tax. The same payment imposed on certain corporations is called variously charter fee, bonus on charters, license tax, tax on certificates, organization tax, corporation tax, and even corporate franchise tax.* The legal nomenclature in America is a most remarkable jumble.

The real distinction between a license charge and a business tax is this: the non-payment of a license charge normally renders the exercise of the business illegal, while the non-payment of a business tax does not render it illegal. Or, more broadly, it may be stated that a license charge is a condition precedent, while a business tax is a condition subsequent (or, strictly, no condition at all).

A license charge, however, may be either a license fee or a license tax.† In order to ascertain which it is, we must fall back on the preceding distinctions. When the license is imposed to cover the cost of regulation or to meet the outlay incurred for some improvement of special advantage to the business, it may be truly said that the licensee gets a special benefit from the privilege, a special benefit measured by the cost. The charge would then be a fee, as in the common case of cab licenses. When, however, the charge for the license to carry on a business, which before the imposition of the restrictive law was open to any one, is purposely so high as to bring in a distinct net revenue to government above the cost of regulation, then we can no longer properly speak of special benefits to the licensee, since, as we have already seen, the special benefit becomes converted into a special burden. The charge is then no longer a license fee, but a license tax. This would be the case with some of the so-called

* Compare Seligman, "Taxation of Corporations," *Political Science Quarterly*, vol. v. (1890) p. 305.

† This is entirely overlooked by the American legal writers. Thus Black on *Intoxicating Liquors*, § 108, makes a labored argument to distinguish taxation from license, while in reality he is distinguishing license fees on the one hand from license taxes and business taxes on the other.

license or privilege taxes in the Southern commonwealths.* Finally, if the payment is not conditional upon taking out a license, but is assessed on certain elements of the business, such as purchases, sales, capital, etc., as in the French *patentes*, the German *Gewerbesteuer*, and some of the American payments, then we have not license taxes, but business taxes, because the condition is subsequent, not precedent. The distinction between license tax and business tax is one of condition of payment: the distinction between license fee and license tax is one of benefit and cost.

There is, therefore, some truth at the basis of the distinction drawn by the American judges between the police power and the taxing power; but it is to be understood in a quite different sense from that usually adopted. The distinction is really one between a license fee and a license tax, on the one hand, and between a license tax and a business tax, on the other. It is not a distinction between police power and taxing power, because a fee, as we know, may be equally an exercise of the taxing power, understood in the broad scientific sense; while a tax is none the less a tax because it is a regulation. When the American judges hold that a license fee must "not exceed the necessary or probable expense of issuing the license and of inspecting and regulating the business," † they are drawing the line between license fees and license taxes, although legal complications may compel them to assert that it is a distinction between the police power and the taxing power. For instance, the decision that high liquor licenses are not taxes — a decision absolutely untenable

* This is really the basis of the very recent decision of the United States Supreme Court in the case of Harmon *v.* City of Chicago, Supreme Court Reporter, vol. xiii. No. 10, p. 306 (February 13, 1893). A license charge for using the Illinois River is declared to be a tax, and in conflict with the interstate commerce provision of the constitution, because it is not a compensation for any specific improvement. In the latter case it would be a license fee or toll, and perfectly valid, as decided in Huse *v.* Glover, 119 U. S. 543.

† Cooley, *Taxation*, p. 596.

from the standpoint of public finance—is due simply to certain constitutional limitations, and the policy of upholding the payments. Liquor licenses, if high enough, are no less taxes than the Southern license or privilege taxes; and the attempt to call them license fees, in order to uphold them under the police power, is the result of a praiseworthy but palpable legal fiction. To say, as Cooley does, that a high liquor license is only a license fee covering the cost of regulation, because "it is reasonable to take into account all the incidental consequences that may be likely to subject the public to cost" (such as prevention of resulting crime and disorder), is a violent stretching of the term. It is utterly impossible to state how much of pauperism and crime is due to drink and how much to other causes.

The truth which our judges have vaguely grasped, and which they have attempted to realize in their decisions, then, is simply this: a fee is a payment for a service or privilege from which a special measurable benefit is derived, and does normally not exceed the cost of the service; a tax is a payment where the special benefit is merged in the common benefit, or is converted into a burden, not a benefit. But a fee remains a fee, whether levied under the police power or the taxing power; and the tax is no less a tax when classified under the taxing power than when put under the police power.

The characterization of fees, as we have outlined them, will also suffice to solve another problem which has given rise to considerable difficulty. Where shall we class the payments made for certain governmental enterprises, like canals, post-office, telegraph, railroads, etc.? Are they taxes, are they fees, are they compulsory payments at all, or are they not rather to be called prices, and classed with the contractual income of the state?

The solution of the problem is to be found not in the nature of the industry or of the article dealt in, but in the

manner in which the industry is conducted. Some writers say that if the government goes into a public business, like the post-office, the charges are compulsory charges; but that if it goes into a private business, like a shoe factory or the coal supply, the revenue belongs to the industrial domain. This, I conceive, is a decided mistake. There is no such sharp line of demarcation between a naturally public and a naturally private business. Everything depends on the view taken for the time being as to the policy of governmental interference. The post-office is everywhere in the hands of government, simply because the enterprise arose at a time when there was no dispute over the policy. The telegraph, the telephone, and still more the railroad business are public occupations in some countries, private occupations in other countries, because the industries developed after the discussion as to the limits of governmental interference arose. Where shall we put the gas industry, which in some municipalities is a public, and in others a private, business? Where shall we put the water supply and the street railway business? Some countries have a monopoly of salt and tobacco manufacture, and these are then regarded as modes of taxing the people who use salt and tobacco. But would there be any difference in principle if the government went into the coal business or the shoe business, in order to tax the people using coal or shoes? It might indeed be very bad policy for the government to extend its functions; but there is no natural and immutable line of cleavage between a public and a private business, between a monopoly of tobacco and a monopoly of bread or iron. The line is always drawn in accordance with the temporary public feeling and the social policy,—the question as to how far the vital public interests are at stake. But this question has been answered, and will always be answered, differently in different countries and in different ages.

The distinction, therefore, is not one of the nature of the enterprise, as most writers have assumed.* It is rather one of the manner in which the enterprise is conducted. If the governmental enterprise is a competitive one, carried on in open competition with private enterprises, the individual has the choice; and, if he chooses to employ the government agency, he pays a price, just as he would pay a price to the private agency. The income to the government is then clearly a contractual, or *quasi*-private, income. But if the government has an actual or virtual monopoly of the enterprise, it can charge what it will; and the individual has no choice. The payment then is arbitrarily fixed by the government. The government indeed may conduct the monopoly enterprise according to different methods. It may give its services gratuitously, and charge the individual nothing, the expense being defrayed out of the general taxes. It may seek to recoup in part or in whole the cost of the enterprise, and charge each individual in the ratio of the special benefits to him. The payment is then a fee. It may seek to make a monopoly profit out of the enterprise, so that the charge to the individual becomes a distinct burden. The payment is then a tax. But whenever the government makes a monopoly charge,—whether it be a fee or a tax,—it is an arbitrarily fixed or compulsory payment; it is no longer a contract price fixed by the higgling of the market and sold in open competition to the highest bidder. For instance, if the government goes into the coal or the gas business in competition with private companies, and sells coal or gas to any one at wholesale or retail, the payment is a price, a contractual payment, a *quasi*-private income.

*For instance, Wagner classes telegraph and postal charges among fees, railroad charges among industrial revenue. Schall limits fees to services for "essential state purposes" (*wesentliche Staatszwecken*). Compare Schönberg's *Handbuch der politischen Oekonomie*, iii. (3d ed.) p. 98. Roscher, *Finanzwissenschaft*, p. 22; and Vocke, *Die Abgaben, Auflagen, und die Steuer*, pp. 223-565, also except payments for post, telegraph, railroads, etc., from the category of fees.

But, if the government has a monopoly of the gas or water supply, and seeks to defray its outlay by saying that every one with one bath-room or one hose should pay so much, then the individual has to pay whether he uses the water or not, because the government arbitrarily estimates the special benefit to him. The payment is then a fee. Finally, if the government has a monopoly of the water supply or tobacco supply or salt supply, and fixes the charge for the tobacco or salt so as to bring in a large net revenue, the special benefit to the tobacco or salt consumer is converted into a special burden; and the payment is a tax.

The real difference between a price and a fee or tax depends, then, on the fact of monopoly. This holds equally good in a private as in a public business. Although we apply the term "price" to competitive prices as well as to private monopoly charges, yet in the latter case the charge is often popularly spoken of as a tax on the consumer; and, in truth, it has many of the characteristics of a real tax.* If the business is a veritable monopoly, the charge is not only an arbitrary charge, but a compulsory charge. If the monopoly deals with an absolute necessity of life, there can be no question as to the compulsory character of the charge; and even if the monopoly sells conveniences or luxuries, the charge to the consumer is really no less compulsory than the charge levied by government on a tobacco consumer or the farm-owner. The individual might indeed go without his luxuries, but he might equally go without his tobacco to escape the tobacco tax or refrain from buying a farm in order to escape the real estate tax. The compulsory nature of the payment is the same.† The important difference, indeed, between a private and a public monopoly is that in the private monopoly the payment is always a tax, because the monopolist wants to make the greatest possible monopoly profits;

* See above, p. 300.   † See below, p. 320.

while, in the case of a public monopoly, the government may be content with covering the whole or a part of the cost of production, or may even give the service gratuitously.*

The matter, therefore, is very simple. The demands made by government for supplying the individual with commodities or services differ in character according to the conditions of competition and the principle of charge. The post-office stamp, like the canal or highway toll, is almost everywhere a fee; † yet the charge might be so high that the special benefit becomes a special burden, and the payments become taxes on communication or transportation. This was very common in former times. Highways were formerly in private hands, and the charge was an extortion levied by the feudal lord. Then the charge became a monopoly tax on transportation, then it

* The attempt of some writers, like Professor Sax (*Grundlegung der theoretischen Staatswirthschaft*, Sect. 74, 75), to construct a separate class of revenues derived from "public enterprises" (*öffentliche Unternehmungen*), like railways, canals, post, telegraph, etc., under the name of "official prices" (*Taxpreise*), and to differentiate these from fees and taxes, is unsuccessful. For Sax himself confesses (*Ibid.*, p. 462) that when these charges are made higher than in ordinary private enterprises the surplus is not distinguishable from an indirect tax. In confessing this, Sax at once abandons the whole contention. For a charge cannot at once be a price different from a tax and a price composed partly of a tax. In other words, Sax virtually grants, although he does not see it, that the criterion is not the character of the enterprise, but the manner in which it is conducted. Sax's discussion really rests on a confusion of thought, although his whole book is devoted to the attempt to show that he alone, among all writers, has the correct idea. Moreover, his distinction between *öffentliche Unternehmung* and *öffentliche Anstalt* is highly overdrawn. Professor Cohn follows Sax, but he comes to grief much earlier; for, while he makes a sharp distinction between prices and taxes, he confesses that the price paid for government tobacco or salt or whiskey is a monopoly tax (*Finanzwissenschaft*, Sect. 95). That is, a price is not a tax, and yet is a tax. It is easy to avoid difficulties in this way.

† Already in 1765 Benjamin Franklin perceived, in part at least, the difference between a fee and a tax. In reply to the question of the parliamentary committee, "Is not the post-office a tax as well as a regulation?" he replied, "No: the money paid for the postage of a letter is not of the nature of a tax: it is merely a *quantum meruit* for a service done." Dowell, *History of Taxation . . . in England*, ii. p. 46. Franklin, however, failed to see that it might become a tax.

became a toll; until to-day the charges have generally disappeared, and the highways are managed on the principle of gratuitous service. The so-called water rent in New York City is a fee, while the water rate in the English cities is a tax, because in New York it is assessed according to special benefit, while in England it is assessed on the basis of ability as measured by the general local tax, and not in ratio of special benefits. Some of the charges made on the French state railway are prices, because they are fixed in competition with certain private roads. The charges made on the German railroads are not contractual, but compulsory payments, because there is a monopoly: they are compulsory not in the sense that every one is compelled to use the railway, but compulsory in the same sense that a whiskey tax or property tax is a compulsory payment,— *i.e.*, whoever uses the road or drinks whiskey or has property is compelled to pay an arbitrary sum fixed by the government. In short, just as a fee may on the one hand become a tax, so on the other hand it may become a price. The payment for the same service may be a price in one State, a fee in a second, and a tax in a third. Whether a given payment is a price, a fee, or a tax, depends not on the nature of the enterprise, but on the conditions attending its operation. But this does not in the least weaken the essential distinction between contractual and compulsory payments on the one hand, and between fees and taxes on the other. To put fees, when paid for governmental agencies, under the head of *quasi*-private or industrial income,* is plainly an error. A fee is never a contractual payment.

It seems, then, that writers like Professor Bastable, who desire to discard fees as a source of revenue co-ordinate with taxes, are taking a step backwards, and are abandoning a distinction already drawn by Adam Smith. The differences of opinion among recent German, Italian, and

* Bastable (*Public Finance*, pp. 147, 221) commits this error.

Dutch writers as to the scientific content of the conception are due to a lack of rigorous analysis. I venture to hope that the above discussion will clarify the conception, and produce a greater harmony of views.

But, whatever may be the result, it is useless to oppose the creation of any class of revenues co-ordinate with taxes; for, even if we utterly disregard fees, we cannot shut our eyes, as most writers have done, to the existence of another important class of compulsory revenues which yet are not taxes. This final class of public revenues are known as special assessments. Let us see what they are.

III.

It has already been pointed out that classification of public revenues has depended upon historical conditions. Special assessments are a comparatively modern and a specifically American development, although the germ of the system may already be found in the Roman edict, *Construat vias publicas unusquisque secundum propriam domum.** We find no mention of them at all in the earlier books on public finance. In France and England special assessments have been so rarely used as to escape detection, although of recent years the policy of introducing the principle of the "betterment tax" has begun to be discussed in England.† Leroy-Beaulieu, even in his last edition, and Bastable ignore them completely. In Belgium and Germany they have been introduced in the past few decades, and we do find them mentioned in the latter

* Quoted in entirely another connection by Sax, *Die Verkehrsmittel in Volks- und Staatswirthschaft*, i. p. 186.

† Compare Rae, "The Betterment Tax," *Contemporary Review*, 1890, and other articles on the same subject. In France the law of authorization may be traced back to 1807, known as the law on "l'indemnité pour payement de plus-value." But only about twenty to twenty-five cases of application are known. Compare Aucoc, *Droit Administratif*, ii. p. 732 *et seq.*

country under the head of *Beiträge*.* But we nowhere find any adequate discussion of special assessments in theory or practice, nor any successful attempt to correlate them with other forms of compulsory contributions.

Yet no American who treats of public finance as a whole can fail to have been struck with the importance of special assessments in actual practice. To take only two examples: in New York City, in 1891, special assessments yielded over $2,400,000: while in Chicago, in 1890, special assessments yielded $4,893,000 as against $6,404,000 raised by taxes.† The courts have been filled with litigation respecting special assessments, and certain valuable principles have been slowly evolved. Yet no one has ever attempted to construct a theory of special assessments, or to assign them to their proper place in the list of public revenues, simply because we have not yet had a single comprehensive American work on the science of finance. Thus the theory of special assessments has not been worked out in Europe, because the facts were not deemed sufficiently important; and the theory has not been worked out in America, because we have had no theorists in public finance.‡

* In Prussia they are legally known as *Interessentenzuschüsse*. Compare Leidig, *Preussisches Stadtrecht*, p. 375. Other forms of special assessments are known as *Deichbeiträge*, and in Baden as *Soziallasten*. The whole system seem- to have received a greater development in Belgium than anywhere else in Europe, and yet it has not been noticed at all. The Belgian, Denis, does not mention it in his recent work, *L'Impôt*. The details of the system may, however, be found in Leeman's *Des Impositions Communales en Belgique*, 2d ed., chaps. v.-x. He calls them *taxes*, but confuses them continually with taxes proper, including special taxes.

† These figures are taken not from the United States census, but from the report of the comptroller of the city of New York and from the finance accounts of Chicago.

‡ I have induced one of my students, Mr. Victor Rosewater, to choose the topic of Special Assessments for his doctor's dissertation. The monograph will be completed in the course of the year, and will appear in the *Columbia College Studies in History, Economics, and Public Law* as Vol. II., No. 3. It will contain a comprehensive treatment of the whole subject, historical, legal, statistical, and theoretical.

A special assessment may be defined as a compulsory contribution to defray the cost of a specific improvement to property undertaken in the public interest, and levied in proportion to the special benefits derived. When a new street is opened, for instance, it is deemed equitable that the expense should not be entirely borne by the whole community, but that it should be defrayed in part or in whole by the abutting real estate owners, whose property receives an undeniable special benefit in the immediate enhancement of value. The advantages of the particular government services accrue in great part to the property owners: it is right that they should bear the burden in the ratio of these advantages. Without going into the history in this place, we may say that the system, beginning in New York in the seventeenth century, has been well-nigh universally adopted in the United States, and that its operation extends to the improvements like the following: the opening, laying out, grading, paving and repaving, planking and curbing the streets; sprinkling them with water, illuminating them with gas and electric light, and even ornamenting them with shade-trees; constructing drains, sewers, levees, and embankments; laying wire conduits and water pipes; bettering water-ways and dredging rivers; laying out and developing public parks, squares and drives. In all these cases the entire expense, or a certain portion of it, is met not by general taxes, but by special assessments. What interests us here is not the description or statistics, but the theory of special assessments.

In the first place, special assessments are an exercise of the taxing power. In the early days various attempts were made to justify special assessments under the power of eminent domain and under the police power. But a leading New York case * in 1851 swept away all these

* People *v.* Brooklyn, 4 N. Y. 419. Some of Judge Ruggles's *obiter dicta* on the principles of taxation are open to very serious question. But as they have really nothing to do with the point decided in the case, we pass them by.

refinements, and decided that special assessments were a constitutional exercise of the taxing power. The whole development in this country has since proceeded on that assumption. The reasoning of Judge Ruggles in that case is so convincing as to need no comment or defence.

Thus the element of public purpose must always be present. It forms an essential part of the definition. A special assessment levied solely for private purpose would be a confiscation, not an exercise of the taxing power. Again, a special assessment must be capable of apportionment: there must be an assessment district, and the assessment must not be arbitrary. Any text-book on the law of special assessments contains countless cases which enforce these points. Special assessments, in short, like fees, are an exercise of the taxing power.

But special assessments, like fees, are not taxes in the ordinary or narrower sense. Taxes, as we know, are compulsory contributions levied to defray the expenses incurred in the common interest, without any reference to particular advantages accruing to the tax-payer. But in special assessments, as in fees, the service for which the expenses are incurred redound to the particular benefit of the individual. The primary test of a tax is common burden: the primary test of a special assessment is special benefit. From this one great distinction all the others flow. They may be summed up as follows: —

First. In a special assessment the special benefit to the individual is measurable. In a tax the special benefit does not exist, or, if it exists at all, it results incidentally from the individual's share in the common benefit: it is not separately measurable. No one, perhaps, will be apt to confound a special assessment with a general tax; but the line of distinction is equally clear between a special assessment and a special tax. The English local taxes for sewer rates, *e.g.*, might seem to be in no wise distinguishable from the American sewer assessments. Some of our

judges, including Judge Cooley, have been led astray by the resemblance.* Yet the English payment is nothing but a special tax, while the American payment is a special assessment. For it is a clear principle of the English system that "the exact measure of the benefit is not the measure of the liability to be taxed," † while the reverse is true in the American system of special assessments. In other words, the test of the special assessment is measurable special benefit: the test of the special tax is not measurable special benefit, but special taxable capacity or faculty, just as the test of the general tax is general taxable capacity or faculty. The distinction could not be clearer. It holds equally good when applied to the special taxes for particular local purposes levied in New Jersey and other American commonwealths as compared with special assessments levied in the same places. And yet the few writers who have spoken of special taxes at all have almost universally confused them with special assessments.‡

Secondly. Taxes may be proportional to property or to income or to expense or to any other test of faculty, or they may be progressive rather than proportional. Special assessments can never be progressive, and must always be proportional to benefits. This is the universally recognized principle in our American jurisprudence; and the whole contest has narrowed itself down to the question as to what is to be regarded as the most equitable standard of benefit. Acreage, frontage, value, superficial area of the property,—all these have been upheld as proper methods of apportionment, and as constitutional

* Cooley, *Taxation*, chap. xx.

† *Report of the Poor Law Commissioners on Local Taxation*, 1844, pp. 43, 65. See also the decisions quoted above, p. 299.

‡ This is true of Professors Neumann and Wagner. Professor Bastable has escaped the confusion only by ignoring both classes, although he does barely mention in one place "the 'betterment' principle" as justification for "local taxes." Cf. *Public Finance*, p. 366.

tests of presumptive special benefit. But not only are special assessments void when there is no special benefit, they are also voidable when the charge exceeds the special benefit.* To charge more than the exact benefit would be tantamount to taking private property without due compensation. In the special assessment there must be a compensation: in the tax there is no question of compensation. The only disputed question in the American courts is whether the special benefit must be actual or whether it may be presumptive. The general tendency of the decisions is to make the legislative and administrative discretion rather wide.†

Thirdly. Special assessments are confined to specific local improvements, while the sphere within which taxes operate is in this respect unlimited.

Fourthly. In the special assessments the government performs a definite, particular act in return. It is a question of service and counter-service, of give and take. In the tax the government does not pledge itself to do a particular thing for the particular individual in return. The reasoning is precisely the same as that adduced above in discussing the distinction between special taxes and fees. A special assessment is in this respect on exactly the same footing as a fee.

The distinction between special assessments and taxes has been widely recognized in American jurisprudence. The constitutional limitations applied to taxation have generally been declared inapplicable to special assessments. As Cooley puts it, "The overwhelming weight of authority is in favor of the position that all such provisions for equality and uniformity in taxation by value have no application to special assessments." Exemptions from taxation do not imply exemptions from special assess-

* *Cf.* the celebrated Agens cases in New Jersey. State *v.* Newark, 37 N. J. L. 415; Bogert *v.* Elizabeth, 27 N. J. Eq. 508.

† *Cf.* Matter of Church, 92 N. Y. 6; Allen *v.* Drew, 44 Vt., 174; and other cases cited in Cooley, *Taxation.*

ments. Special assessments are none the less a distinct class because in some laws they are called taxes. In some cases, in their anxiety to uphold the distinction, the same courts interpret the word "assessment" in the phrase "uniform rate of assessment and taxation" sometimes one way, sometimes the other. That is, when special assessments must be put under the taxing power in order to be upheld, "assessment" is held to be used in the general sense, and to mean taxation; when in other cases special assessments can be upheld only by being distinguished from taxes, "assessment" is held to be used in the technical sense, and to mean something different from taxation. All the ingenuity of the American judges has been needed to attain the result now achieved,— the marked distinction between special assessments and taxes.* But their efforts have been sensible, and the result is in accord with the teaching of the science of finance.

Special assessments hence are not taxes. But, as we have seen, they differ from taxes in the same sense that fees differ from taxes, in that both fees and special assess-

*One recent case, to which my attention has been called by Mr. Rosewater, is especially noteworthy as illustrative of ingenious distinction. The general trend of authority, as we have shown, is to give a wide discretion, and uphold assessments per front foot as a good presumptive test of special benefit. Yet in the celebrated Illinois case of Chicago *v.* Larned, 34 Ill. 203 (decided in 1864), the court held that the provisions of the constitution as to uniformity and equality of taxation were unusually stringent, and were applicable to special assessments also. The court was really mistaken here, as the Illinois constitution did not differ from many others where the contrary interpretation was adopted. Still, as a consequence of their view, assessments could be made on each lot only up to benefit actually proven, while the remainder of the cost would have to be defrayed by general taxes. Assessment by front foot was held to be invalid. Yet later on the courts evaded this case by a very fine distinction. The constitution of 1870 gave local authorities the right to levy "special taxes for local improvement." In White *v.* People, 94 Ill. 613, the court held that a special tax was not a special assessment, and that a special tax might exceed the actual benefits to the particular lot. An assessment by front foot is hence valid, and the system in Illinois to-day is the same as in other States. Of course the "special tax" of the Illinois constitution is simply the "special assessment" of other States, and is even known by the latter name in Illinois itself. There is a distinction between a special tax and a special assessment, as we have seen; but it is not the distinction drawn by the Illinois court.

ments rest on the doctrine of equivalents. Fees, special assessments, and taxes all have points in common in that they are all manifestations of the taxing power. Fees and special assessments have additional points in common, which they both possess in contradistinction to taxes. But, finally, fees and special assessments differ from each other. We have distinguished special assessments from taxes: it remains to distinguish special assessments from fees.

In the first place, special assessments are levied only for specific local improvements: fees may be levied for any services. The field of operation of special assessments is restricted: that of fees is unrestricted.

Secondly, special assessments are paid once and for all: fees are paid periodically, according to each successive service. The only qualifications to this statement are that special assessments may, in a few cases, be spread over a longer period, and may then be payable by regular installments; while, on the other hand, a fee is of course paid only once when the service is demanded only once, as in the case of a marriage fee. But that does not invalidate the distinction. In the special assessment the payment is, so to speak, capitalized in a lump sum, payable generally at once, but occasionally by installments. In the fee, on the other hand, the payment is, so to speak, fragmentary and irregular. There may be a question as to a choice of methods. For instance, in constructing a bridge, the cost may be defrayed either by levying a special assessment on the abutting property owners or by charging tolls on the people who use the bridge; and these are presumably in great part also the abutting property owners or their friends and dependents. If the benefits redound in greater part to these property owners, the charge ought to be a special assessment; if the benefits redound in greater part to the individuals who are not the property owners, the charge ought to be a fee

(toll); if the benefits are so wide-spread that the whole community at large is almost equally interested in it, the charge ought to be neither a special assessment nor a fee, but a tax on the general tax-payer.

Thirdly, a fee is levied on an individual as such: a special assessment is levied on an individual as a member of a class. That is, in the case of special assessments there must always be an assessment area upon which the whole assessment is levied, to be then further distributed according to a definite rule of apportionment. It is a settled rule of the American law, for instance, that in assessing benefits the assessors cannot restrict themselves to the cost of the improvement in front of a particular lot.* In the fee, on the other hand, the government looks not to the class or the area, but to the separate individuals.

Fourthly, a special assessment must always involve a benefit to real estate: a fee is paid for a service which may benefit other elements than real estate, such as personal property, or other attributes of the individual without reference to property at all.

There is one further distinction, which, however, is more imaginary than real. It might be maintained that special assessments are like direct taxes, and fees like indirect taxes, because the former are compulsory and the latter are voluntary. But this distinction is very badly expressed, and, as it reads, untenable. For, notwithstanding the contrary statement, which has frequently been made, indirect taxes are not a whit more voluntary than direct taxes. It is true that, if a man chooses to go without tobacco, he may escape the tobacco tax; but it is equally true that, if a man chooses to go without land, he may escape the land tax; or, if he chooses to go without certain kinds of property or income, he may escape to that extent the property tax or the income tax. Indirect as well as direct taxes are compulsory, not voluntary contri-

* *Ex parte* Mayor of Albany, 23 Wend. 277.

butions. So, in the same way, there is no truth in the statement that a fee is voluntary and a special assessment compulsory. It is true that I do not need to pay a pedler's license fee if I do not care to peddle; but, on the other hand, I do not need to pay a special assessment if I do not care to own the land. And, when the payment of a fee is connected with necessary every-day transactions, like mortgage registration fees or marriage fees, there can be no question of the compulsory nature of the transaction. Birth and death cannot well be termed voluntary actions; and yet a registration fee for a birth or death certificate does not differ in character from any other fee. Fees like special assessments, indirect like direct taxes, are all compulsory contributions.*

It is clear, however, that there is a sharp line of distinction between fees and special assessments, as there is between special assessments and taxes. There is no danger of confusing them in practice. The only remarkable fact is that so little should yet have been done to differentiate them in theory. Even Professor Wagner in the last edition of his work is compelled to recognize the existence of "*Beiträge*," but mentions them in a few lines as an addendum to fees, entirely ignoring the marked points of difference. Of course, it would be easy to follow Professor Bastable's example, and deny the existence of fees at all as a separate class, in order to avoid the "creation of a distinct group of state receipts co-ordinate with that derived from taxation." † But, when confronted with the undeniable existence of special assessments, even he will have to revise his classification, and create at least one "distinct group co-ordinate with" taxes. And, if this one group is separated from taxes, it will be difficult to refuse

* Neumann, who is the only writer to attempt a distinction between fees and special assessments, makes it turn on a very dubious distinction between direct and indirect taxes. *Die Steuer und das öffentliche Interesse*, pp. 327, 334.

† *Public Finance*, p. 221.

to cut off another group, for the arguments that apply in the one case apply equally well in the other.

To sum up the preceding discussion, we find that under actual conditions all public revenues are either gratuitous, contractual, or compulsory contributions; that the compulsory contributions are levied in virtue of the power of eminent domain, the penal power (either as a separate power or as the fiscally important part of the police power), or the taxing power; and, finally, that the taxing power manifests itself in the threefold form of special assessments, fees, and taxes. We should then have this table: —

Revenues	Gratuitous		Gifts
	Contractual	Public Property and Industry	Prices
	Compulsory	Eminent Domain	Expropriation
		Penal Power	Fines and Penalties
		Taxing Power	Special Assessments Fees Taxes

I would offer in conclusion the following definitions: —

A Special Assessment is a compulsory contribution paid once and for all to defray the cost of a specific improvement to property undertaken in the public interest, and levied by the government in proportion to the special benefits accruing to the property owner.

A Fee is a compulsory contribution to defray the total or partial cost of each recurring service undertaken by the government in the public interest, but conferring a special advantage on the fee-payer.

A Tax is a compulsory contribution from the individual or association to cover the expenses incurred by the government in the common interest, without reference to special benefits conferred.

EDWIN R. A. SELIGMAN.

THE INTERPRETATION OF RICARDO.

Ever since the death of Ricardo there has been an increasing interest in him and his writings. For all deductive economists his theories have had a charm which those of no later writer possess. There are many whose reasoning is more perfect, many whose ideas are more clearly expressed; but few have attained the commanding position of Ricardo in economic theory.

On the other hand, among a large class of economists with inductive and historical tendencies, any doctrine to which Ricardo's name is attached is discredited, and often treated with contempt. I have no desire to enter this controversy, which must rest as it is until a new spirit causes men to interpret the history of economic theory from a new standpoint. I only desire to discuss the interpretation of Ricardo's writings which has grown up among his followers and disciples, and from a position friendly to him and them. Few writers have a greater interest in deductive economics than I, and no one would be less willing to say anything that would reflect any discredit or lower in any way the high esteem in which Ricardo is held. Yet it seems to me that his friends in defending him have placed him in a false light, and have distorted the history of economic theory. Ricardo is too great a man to need any false praise: his merits will only be magnified if he is placed in his true historical position as an economist.

Perhaps I can bring forward the issue I want to discuss no better than by asking a question. In the early part of the year 1815 a remarkable essay by Malthus appeared, which opened up the discussion of the theory of rent; and a few months later came a still more remarkable essay by

Ricardo, in which the position of the modern economist was clearly represented. There is a marked difference between the essay of Malthus and that of Ricardo. The character of the change which Ricardo brought about in economics becomes more manifest when we compare the position of Malthus with that taken by Ricardo in his *Political Economy*, published two years later. How are we to explain the difference in tone between the essay of Malthus and that of Ricardo, and more especially how are we to account for the sudden appearance of a work of so much importance as Ricardo's *Political Economy?* It might be claimed that, upon reading the essay of Malthus, a new theory of political economy loomed up before him, as a sudden inspiration, so to speak. But such radical changes in the ideas of a mature man rarely take place. It is true that sometimes one man gives a new impetus to the thinking of another, as is shown in the influence of Hume on Kant; yet in this classic example it took years for Kant to work out his system, while Ricardo seems to go through his evolution of thought in a few months.

Out of this difficulty there is a way which has received much favor from later economists; and that is to ignore Malthus's books entirely, and to treat rent and other doctrines of Ricardo as the product of his own thinking. In this way, however, a great injustice is done Malthus, and the development of the ideas of Ricardo is placed in a false light. We are not called upon to put all these theories in a bunch, and then decide whether Malthus or Ricardo was their sole discoverer. The works of these two writers are distinct and supplementary. Ricardo did much for economic theory, but it was different from what Malthus did; and the glory of the former is reduced, and not increased, by ignoring Malthus. The strength of each of these writers lay in fields where the other was weak.

Let us go back therefore to the beginning of the period to which these writers belong, and try to place each in his

true position and give to him the credit to which he is entitled.

It is plain that both these writers took their starting-point in economic investigation from the writings of Adam Smith. The *Wealth of Nations* contains the elements of two different economies or modes of viewing economic affairs. But they are blended so nicely that their lack of harmony did not become evident until a new development in the industrial world brought new issues to the front.

The older economy may well be called the agricultural economy. It supposes that the mass of the people resides in the country, and depends upon the cultivation of the soil for a living. Under these conditions land problems are of vital importance to society, and the surplus from land is almost the sole cause of social progress. So small a use is made of capital that it is not considered of enough importance to place it beside land and labor as an agent in production or a factor in distribution. The loaning of money on interest is looked upon as an evil, because the borrower usually expends the money received on luxuries, and does not use it to increase the productive power of society. The leading contrast in the sources of income lies between rent and wages: the first represents the surplus of society; the second, its costs. Prosperity, therefore, depends upon the increase of rent. If the landlords are prosperous, society is prosperous, because the surplus of the landlords is diffused throughout society, and creates its prosperity. These ideas were developed more consistently by the Physiocrats than by other thinkers, yet the same general principles lie at the basis of all the earlier writers who think of society as made up of agricultural communities.

The growth of cities as a result of the industrial development of the eighteenth century created a new way of viewing national progress, which may be called the indus-

trial economy. The rapid increase of capital is the leading phenomenon of such a society. It is the one thing around which all the problems of city life cluster. Buildings, machinery, raw material, finished goods, and all other necessaries of production and exchange are viewed merely as forms of capital; and the dependence of production upon nature (the leading fact of a country economy) is overlooked or neglected. Even the food supply is considered more as a product of saving than as a product of natural forces.

The two factors of production thus become capital and labor, and the two forms of income are profits and wages. Capital takes the dominant place that land takes in the agricultural economy, and the surplus of society becomes profits instead of rent. Wages are still the equivalent of cost, but they are contrasted with profits instead of with rent. In the agricultural economy wages fall as rents rise; while in the industrial economy wages fall as profits rise, and the opposite. Just as in the agricultural economy the prosperity is measured by the prosperity of the landlords, so in the industrial economy prosperity is measured by the condition of the capitalists. The rate of profits becomes the criterion of prosperity instead of the increase of rent.

In making this comparison, I am fully aware that no writer or group of writers has made use of all these premises. I am merely making use of elements that lay at the basis of their mode of thinking, and were but partially incorporated in their writings. Each writer meant to give an impartial view of the national economy; yet his environment and education colored his views, and created a tendency to neglect facts that did not harmonize with preconceived opinions. Even many city economists viewed the national economy from a country standpoint, and failed to see the industrial function of cities or of capital in modern life.

As long as the national economy was viewed from either of these standpoints, the theory of political economy was of necessity a theory of prosperity. There can be no proper theory of distribution until the disposition of some portion of the surplus income of society is undetermined. With wages at a minimum, and all the surplus of society being either rent or profits, no law of distribution was needed. There was need only of a measure of prosperity, and this measure could be found in the growth of rent or of profits. It is true that in these earlier societies there were rent, profits, and wages; but so long as the country people did not recognize the industrial function of the city, and city people neglected the relation between their prosperity and that of the country, these three elements could not be brought into vital relation. Country people looked upon the city as a place to spend money. The extravagance of court circles attracted their attention more than the activity of city artisans. On the other hand, city people knew little of country people except as country gentlemen and other landlords, who were pictured as living upon the bounty of nature rather than upon the fruits of their industry. So long as city people regarded the wealth of the nation as divided among artisans, capitalists, and country gentlemen, and country people thought the distribution was among farmers, land-owners, and city spendthrifts, the basis of a theory of distribution was lacking. It was only possible to indicate what disposition of the surplus was for the best interests of society; and of that disposition there could be no question, either in the minds of the city or of the country people, so long as they viewed production in so partial a manner.

In comparing these two economies, we shall find the basis of the differences which separated Malthus and Ricardo, and at the same time made their intercourse with each other so valuable to themselves and to the development of economic science.

Malthus viewed the problems of prosperity from a rural point of view, and made national prosperity to be the same as agricultural prosperity. The index of country prosperity he found in the amount of agricultural rent, and hence assumed that the increase of agricultural rent was the measure of the increase of national prosperity. But Ricardo was a man of another type, having the instincts and education which a city environment alone can give. He is the first writer to take the industrial phenomena of city life and to create an economy based upon those characteristics. Land problems and commercial problems are with him secondary, and are not considered until the elements of industrial life in the cities have been arranged. With earlier writers purely industrial phenomena are considered merely as a modification of the laws of trade and agriculture. With Ricardo the order is reversed. From industrial facts he develops his fundamental laws, then bringing the laws of trade and agriculture into harmony with them.

Ricardo's thinking on economic subjects begins with a study of the conditions which determine the rate of profits, and about this all of his system is constructed. Adam Smith had said that the rate of profits was lowered by the competition of producers. Ricardo, who had been a close follower of Smith, differed from him on this point, and began his independent thinking by controverting this opinion. He showed that values could not rise or fall as a whole. General high or low values were impossible, and hence the fall of profits must have some other cause than increased competition. The true cause he found in an analysis of value. He saw that the cost of production of all freely produced commodities depends solely upon the quantity of labor required to obtain them; and, as general values cannot rise or fall, the rate of profits is determined by the cost of this labor. There was no way through which an employer received a compensation for

a rise in wages; and there could be but one result,—a fall of profits.

High wages, however, did not mean to Ricardo a better condition of the laborers. He was a firm believer in the law of population developed by Malthus, and consequently regarded high wages as indicating a higher cost of the articles which the laborer consumed. He assumed further that the consumption of the laborers was mainly food, and hence concluded that high wages indicated a high price of food. Profits by this chain of reasoning is put in contrast with the price of food. Low profits mean a high price of food, and high profits a low price of food. Thus Ricardo reached the famous contrast that lies at the basis of his system. He seized firmly the proposition that the rate of profits depends upon the price of food, and he never lost sight of it through all of his subsequent investigation.

Profits were falling in England at this time, and the price of food was rising: the latter, therefore, was the cause of the former. This high price of food was due to the tariff on the importation of food; and Ricardo naturally became a free trader, denouncing the Corn Laws as the cause of the low rate of profits. In this stage of his development Ricardo did not suppose that a high price of food and a low rate of profits were a necessary consequence of industrial progress. His conclusions were based on the concrete industrial condition of England at this time. Free trade was the remedy for the abnormally high price of food which governmental restriction had caused. Through it a higher rate of profit could be obtained, and industrial prosperity restored.

With these conclusions Malthus did not agree. He looked at economic problems from an agricultural point of view, and thought that national prosperity depended upon a high price of food. Rent, he contended, was a creation of new wealth, and not a transfer of wealth from

the industrial classes to the landlords. Ricardo, however, regarded rent as a creation of value merely, and not a creation of wealth. The rise of rent indicated a transfer of the surplus of society from producers to landlords, and a fall in the rate of profit. What was once profit became rent through the high price of food.

The essay of Malthus on the *Nature and Progress of Rent* was the outcome of this controversy about the Corn Laws. He desired to show that the high price of food was not due to the Corn Laws or to monopoly, but was a natural consequence of national progress. The increase of population required more food, and more food could be obtained only by the cultivation of poorer land. The high cost of cultivating these poorer lands demanded a high price of food, and a nation could not be populous and prosperous without such an increase in the price of food as would allow poor lands to be cultivated with the usual rate of profit to farmers. The high price of food was therefore the result of an increasing population, and not of the Corn Laws. The latter strengthened the motives which lead farmers to improve their land, and thus created the fund out of which increased rents could be paid. Malthus, therefore, naturally became a protectionist, defending the Corn Laws.

This essay on rent did not have the effect upon Ricardo that Malthus anticipated. Ricardo saw what Malthus did not see,—that the new theory fitted admirably into Ricardo's system, and made the proof of his theory of the relation of the price of food to profits more perfect. The law of rent came into Ricardo's system, *not as a basis, but as a better proof of a theory already developed.* He now saw that the high price of food was a natural consequence of industrial progress.* He was therefore able to base his

*"High rents and low profits . . . ought never to be the subject of complaint if they are the effect of the natural course of things." See Ricardo's *Essay on the Influence of a Low Price of Corn on the Profits of Stock*, p. 20.

theory that profits fell as the price of food rose on a general law of nature, and not on a specific study of English conditions. Instead of drawing the particular conclusion that the Corn Laws raised the price of food in England, and thus reduced the rate of profit, he could appeal to a line of argument that would prove deductively the well-known historical fact that the rate of profit fell with every increase of national prosperity.

The discovery of the cause of rent was the beginning of a new epoch in the development of economic theory, for it turned the attention of economists from the theory of prosperity and the disposition of the surplus of society to theories of value and distribution. While, however, an impetus to these new studies was given by the writings of Malthus and Ricardo, it is a serious mistake to assume that their interest centred in the theory of distribution instead of the theory of prosperity. So much emphasis has been given to the theory of distribution by recent economists that they are apt to read into the writings of the earlier economists opinions which would impute to them the ideas of a period later than that in which they lived. The theory of distribution could not be developed until some laws were formulated, fixing the size of the funds distributed as rent, profits, and wages.* Nor could the theory of value assume a prominent place until it was known what elements did and what did not enter into the cost of production of commodities. Neither of these theories, therefore, could be discussed until the theory of rent was discovered. When the concept of marginal cost had displaced that of average cost, it became possible to resolve profits into a number of special costs (risks, abstinence, etc.), and then to say that value *equals* the cost of production instead of the older formula that cost is *proportional* to value.

* All theories of distribution are dependent upon some theory of value to fix the size of the funds to be distributed.

The theory of prosperity contrasts only cost with surplus, and does not need any theory of value for its discussion. The theory of cost of the earlier writers was simple, because they assumed that the laborers received none of the surplus, and that all the consumption of the laborers was in the form of food, which included clothing and shelter. The surplus was therefore the difference between the cost of food and the value of the whole produce of industry.

As later writers have analyzed profits and interest into a species of cost, it may be well to show that the older economists regarded them as a part of the surplus. In this way it can be shown that the older economists viewed political economy primarily as a theory of prosperity.

The profits of stock, it may perhaps be thought, are only a different name for the wages of a particular sort of labor,— the labor of inspection and direction. They are, however, altogether different, are regulated by quite different principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labor of inspection.— *Wealth of Nations*, Book I. chap. vi.

Like the rent of land, it [interest] is a net produce which remains after completely compensating the whole risk and trouble of employing the stock.— *Ibid.*, Book V. chap. ii. Article II.

The more general surplus here alluded to is meant to include the profits of the farmer as well as the rent of the landlord, and therefore includes the whole fund for the support of those who are not directly employed on the land. Profits are, in reality, a surplus, as they are in no respect proportioned to the wants and necessities of the owners of capital.— *Malthus, Inquiry into the Nature of Rent*, p. 16, note.

Provided its net real income, its rent and profits, be the same, it is of no importance whether the nation consists of ten or of twelve millions of inhabitants.— *Ricardo, Political Economy*, chap. xxvi.

On these points there were no differences of opinion: the dispute related to the disposition of the surplus,— whether it was better for society that the surplus should be rent or profits. Adam Smith and Malthus held that high rent was the measure of social progress, while Ricardo main-

tained that high profits was the true measure. To contrast these two opposing positions, it may be well to quote from these writers.

Every increase of the real wealth of society [says Smith], every increase in the quantity of useful labor employed within it, tends indirectly to raise the real rent of land. . . .

These are the three great original and constituent orders of every civilized society, from whose revenue that of every other order is ultimately derived. The interest of the first of those great orders [landlords] it appears from what has been just now said is strictly and inseparably connected with the general interest of the society. Whatever promotes or obstructs the one necessarily promotes or obstructs the other. When the public deliberates concerning any regulation of commerce or police, the proprietors of land never can mislead it, with the view to promote the interest of their own particular order, at least if they saw any tolerable knowledge of that interest. . . .

But the rate of profit does not, like rent and wages, rise with the prosperity and fall with the declension of the society. On the contrary, it is naturally low in rich countries and high in poor countries; and it is always highest in the countries which are going fastest to ruin. . . . The proposal of any new law or regulation of commerce which comes from this order [employers of labor] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who generally have an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. — *Wealth of Nations*, Book I., conclusion of the last chapter.

Rents [says Malthus] are neither a mere nominal value nor a value unnecessarily and injuriously transferred from one set of people to another, but a most real and essential part of the whole value of the national property, and placed by the laws of nature where they are, on the land, by whomsoever possessed, whether the landlord, the crown, or the actual cultivator.— *Malthus, Inquiry into the Nature of Rent*, p. 20.

It is not, of course, meant to be asserted that the high price of raw produce is, separately taken, advantageous to the consumer, but that it is the necessary concomitant of superior and increasing wealth, and that one of them cannot be had without the other.— *Ibid.*, p. 47.

It is easy to find other statements of this character in both these writers, but enough has been presented to show the defective analysis they make of the causes of national prosperity. The industrial function of city producers was not understood; while high profits were regarded as coming from illegitimate sources, and not due to an increase of productive power. To break the force of such ideas, it was not a new theory of distribution that was needed, but a new analysis of production, and of the causes of prosperity. The place of city people in production must be made clear, and the causes of high rents properly analyzed. In short, the fact demanded emphasis that the increase of prosperity depended more upon industrial than upon agricultural conditions, and, further, that the increase of wealth was due to high profits, and not to high rents.

Ricardo was the first economist to view economic relations solely from an industrial or city point of view, and hence from the start he consciously puts himself in opposition to the theory of prosperity held by Smith and Malthus. He did not need a formulation of the law of rent to arouse him in an economic world, dominated by the ideas of these writers. It was the cause of rent and profits that first interested him, and not the law of their distribution. His letters to Malthus show clearly that the relation of the price of food to the profits of stock was one of the first subjects to which his attention was directed.

If by adopting such policy [Corn Laws] a country were to enhance the value of the raw materials which it consumes, of which corn is the principal, it would thereby lower the rate of interest. . . . This is a repetition, you will say, of the old story, and I might have spared you the trouble of reading at two hundred miles' distance what I had so often stated to you as my opinion before; but you have set me off, and must now abide the consequences. I was never more convinced of any proposition in political economy than that restrictions on importation of corn in an importing country have a tendency to lower profits.—*Letters of Ricardo to Malthus* (Bonar's edition), No. XV.

I have been endeavoring to get you to admit that the profits on

stock employed in manufactures and commerce are seldom permanently lowered or raised by any other cause than by the cheapness or dearness of necessities, or of those objects on which the wages of labor are expended. Accumulation of capital has a tendency to lower profits. Why? Because every accumulation is attended with increased difficulty in obtaining food, unless it is accompanied with improvements in agriculture, in which case it has no tendency to diminish profits.—*Ibid.*, No. XXI.

I have now read with great attention your essay on the rise and progress of rent.... I cannot, however, help regretting that you did not consider separately the relations of rent with the profits of stock and the wages of labor. By treating of the joint effect of the two latter on rent, you have, I think, not made the subject so clear as it might have been made.... I think, too, that rents are in no case a creation of wealth: they are always a part of the wealth already created, and are enjoyed necessarily, but not on that account less beneficially to public interest, at the expense of the profits of stock. *Ibid.*, No. XXIII.

The first two of these extracts were written before the appearance of Malthus's essay on rent, and the third is from the letter acknowledging its receipt. They show how clearly and definitely Ricardo had worked out his fundamental ideas before he heard of the theory of rent. The relation of the price of food to the rate of profits is the central thought of his early as well as of his later writings, and the charm of his reasoning is mainly due to the able manner in which he groups so many other ideas around this one thought. In this way that crude and incongruous concept of the industrial world upon which Smith and Malthus based their theory of prosperity was displaced by Ricardo by another concept more in harmony with the phenomena of his own time.

Viewing Ricardo's *Principles of Political Economy* in the light of these facts, it is not difficult to divide the book into parts which will show the periods in the development of his system of thought. It was either partly written before the essay of Malthus on rent appeared, or the specific and isolated manner in which Ricardo was

accustomed to study the several economic problems in which he was interested prevented him from uniting them into an organic whole and restating his proof in harmony with the new conditions. He does not co-ordinate rent with profits and wages, thus consciously breaking the ground for a theory of distribution. He remains satisfied when he has shown that the theory of rent does not affect his theory of value, because rent is not a part of the cost of production of commodities. Profits are still made to depend upon wages, rent being recognized only in an indirect manner. He thus left for later writers that transformation of political economy into a theory of distribution which shows itself plainly in J. S. Mill, but most completely in F. A. Walker.

The early form of Ricardo's thinking is shown in his discussion of value and prosperity (riches). The following chapters contain the nucleus of this economic system before it was modified by contact with contemporary economists: XXVI., "On Gross and Net Revenue." XX., "Value and Riches, their Distinctive Properties." XXVIII., "On the Comparative Value of Gold, Corn, and Labor, in Rich and Poor Countries." I., "On Value." IV., "On Natural and Market Price." V., "On Wages." XXI., "Effects of Accumulation on Profits and Interest." The order is not that in which they were written or that in which they appear in his book. In writing he seems to have started from the point of greatest present interest, and afterwards to have added chapters as they occurred to him or as they were suggested by current economic discussion. In this way some of the topics to which his attention was at first directed come late in the book. The chapter on Profits (VI.) logically belongs to this group, but he has evidently revised the argument of the first part of it to make it conform to the new theory of rent. His earlier views on profits are better stated in the chapter on the Accumulation of Profits.

In these chapters he shows clearly the influence of Adam Smith. The writings of the latter are the starting-point for the discussion of each specific point, and then Ricardo proceeds to develop his own ideas by a contrast between his position and that of Smith.

The second period includes the parts relating to money and foreign trade. In these discussions Ricardo reasons from original investigations based upon facts within his own experience and observation. Here is the *pure* Ricardo. The familiar facts of trade and commerce are isolated from other industrial phenomena, and treated as though they formed a complete industrial world of their own. They are, however, specific, concrete, and pictorial, presenting a picture of the world as seen from the books of a merchant or banker. Bold deductions are made from these specific cases which were happy in their results because the whole industrial world was then moving along lines where bankers and traders had gone before.

The third period in Ricardo's thinking resulted from the discovery of the theory of rent by Malthus. Under its influence he changed the character of his law of the relation of profits to the price of food from a particular to a general law, and revised his discussion of profits by basing his argument on the law of rent. (See his chapter on Profits.) This change in the argument for his fundamental propositions naturally turned Ricardo's attention away from the theory of prosperity to the problems of distribution. The chapter on Profits was, I think, the last chapter that he thought out (in its present form); and there he has partially shifted his point of view from prosperity to distribution. His Preface, however, was last of all to be written; and in it he has finally become conscious of the importance of distribution, and declares it to be "the principal problem of political economy."

This Preface is of peculiar importance as an illustration of the specific way in which Ricardo reasoned and of the

difficulty he had in breaking away from the concrete form in which he first thought of individual problems, and shows the effort required for him to see a general truth instead of concrete particular laws. Nowhere throughout his whole book does he treat rent, profits, and wages as co-ordinate factors in distribution, after the manner in his Preface. He often contrasts profits and wages, or profits and rent, but never rent and wages. If he had broken away from his concrete thinking enough to contrast wages and rent, he would have forestalled Henry George, since the latter writer has nothing new of theoretical importance except this contrast neglected by Ricardo and his followers.

The cause of the concrete way in which Ricardo looked at economic problems is easily explained, when we have the key to the development of his thinking. In discussing value as a static problem, he always contrasts profits with wages, because wages are costs of production, and profits are its surplus. When, however, he was discussing the distribution of the surplus (net produce), he always contrasts profits with rent. The latter grows at the expense of the former, whenever the increase of population due to social progress raises the price of food. We have in his book these two concrete doctrines stated in an endless variety of forms; but nowhere except in the Preface does he generalize enough to see the co-ordinate relations of rent, profits, and wages in the theory of distribution.

It may seem strange to assume that the Preface was written after the rest of the work. Books, however, are written on two plans. Systematic writers think out their whole scheme before beginning to write, and their prefaces reflect the contents of the books. Unsystematic writers, like Ricardo, begin without any clearly perceived plan, write section after section in a haphazard manner, frequently changing the order of the sections in the book. There is therefore no clew to the order in which

the chapters of such a book were actually written except internal evidence. The first may be last, and the last first, or first and last both may be in the middle of the book. When a writer of this class has finished his book, he writes his preface. It is not, however, an introduction to the book, but an appendix to the last chapter he wrote, with perhaps a few odds and ends for which he found no other fitting place. With Ricardo his Preface is an appendix to his chapter on Profits, where he finished his writing, and in which he dimly saw the theory of distribution which became so important in the subsequent development of the science.

From internal evidence I am inclined to believe that James Mill wrote or at least inspired the first three paragraphs of the Preface. They have his tone and style, and not Ricardo's. As I have said, Ricardo never co-ordinates rent, profit, and wages. Mill does this consciously from the start. Ricardo never classes machinery with labor and capital. His capital is primarily food, and thus he contrasts labor with the sustenance of labor. Mill, however, regards capital primarily as tools or instruments, increasing the productive power of men. He would, therefore, naturally make a threefold division,— labor, the material aids to production, and sustenance.

The fourth and subsequent paragraphs of the Preface have a true Ricardian ring, and were doubtless at one time the whole of the Preface. They are specific and definite statements of facts, beginning with a reference to the discovery of the true doctrine of rent by Malthus and West. His modest appreciation of his own abilities shows itself plainly in the fifth paragraph, and his characteristic appreciation of Adam Smith and Say in the two last paragraphs. In this part of the Preface, according to Ricardo's usual method of treatment, wages and profits are regarded as the ultimate shares in distribution; while, as a whole, they are contrasted with rent which grows at

their expense. To write such sentences as these was natural to Ricardo, and he needed no aid in their construction. But the first three are of a different character. They must have been inspired by some one else or written at a later period than the rest of the Preface, and thus marked a transition in the thinking of their author from the theory of prosperity to that of distribution.

It is also a mistake to assume that Ricardo generalized sufficiently upon the data which the law of rent gives to make the cost of production the cost of that portion of a commodity produced under the most unfavorable circumstances. He did indeed get glimpses of this law in concrete cases, but he failed to grasp those features of the modern industrial world upon which F. A. Walker has recently based his law of profits. Professor Gonner, however, is of another opinion, and says that Ricardo states this law with the utmost lucidity.* He quotes the following passage in support of his position: —

> The exchangeable value of all commodities, whether they be manufactured or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labor that will suffice for their production under circumstances highly favorable, and exclusively enjoyed by those who have peculiar advantages of production, but by the greater quantity of labor necessarily bestowed on their production by those who have no such facilities, by those who continue to produce them under the most unfavorable circumstances, meaning by the most unfavorable circumstances the most unfavorable under which the quantity of produce required renders it necessary to carry on production.— *Ricardo's Political Economy* (Gonner's edition), p. 50.

So far as words go, this passage seems explicit enough; but, when we seek to find what Ricardo means, it is easy to show that he did not use these words in their present significance. The next sentence shows how limited were his ideas of the principle involved.

* Ricardo's *Political Economy* (Gonner's edition, introductory essay), p. xxxiii.

"Thus," he continues, "in a charitable institution, where the poor are set to work with the funds of benefactors, the general prices will not be governed by the peculiar facilities afforded to these workmen, but by the common, usual, and natural difficulties which every other manufacturer will have to encounter."

It is evident from this sentence that Ricardo did not mean that the producers of commodities had different natural obstacles to overcome, or that they differed among themselves in the power to organize labor and capital efficiently. He had in mind only the artificial advantages which some producers have, because of governmental aid or restrictions, or because production is carried on from other motives than gain. The average producer, having the "common, usual, and natural difficulties" to overcome, fixes the cost of production; and the few producers who are exempt from some of these conditions do not fix the price of a commodity, unless they are numerous enough to supply all who want the article. This statement harmonizes fully with Ricardo's conception of the causes determining value. Eliminate every artificial condition, and all producers will have the same difficulties to surmount, and will have the same cost of production. Costs lie in relations of men to nature; and, these relations being objective, all producers are on equal footing.

The more recent conception of marginal cost assumes a graded scale of intelligence among producers, by which their industrial positions are determined. The productive power of a group of producers depends not wholly on the natural obstacles they must encounter, but also on the skill of the individual workmen and on the management, enterprise, and organizing power of their employers.

These facts were not appreciated by Ricardo, so that his application of the law of marginal cost was limited to a few unimportant cases, arising from government interference or from production carried on for charitable purposes. The law thus remained in an imperfect form until

later writers saw that the subjective differences in men were as important as the objective differences in land. It then became possible to break down the concrete barriers that separated the law of rent from that of profits, and to view them as species of a more general law.

Viewed from a purely theoretical standpoint, Ricardo's theory of taxation is the most defective portion of his book. The concrete way in which he handles each specific tax prevents him from seeing general principles or even from reaching any general classification of taxes. The same form of taxation is treated in different ways under different names. The discussion in one case seldom tallies with what he says in another, and in some instances the different parts of the same chapter do not harmonize. Taxes on rent are discussed under three different titles, and a tax on raw produce in at least four ways. He fails to reach any general law of the incidence of taxation, because he does not break away from the concrete conditions under which he studies each form of English taxation.

In many respects his discussion of taxation reminds me of Adam Smith's discussion of rent. At times he seems to see the underlying law of the incidence of taxation, and to state it clearly, only, however, soon to lose sight of it altogether, and to fall back into that hopeless confusion of ideas and principles which characterizes the popular opinion on all subjects to which the methods of scientific investigation have not yet been extended. In taxation he lacked a Malthus to stir him up to his best thinking, and to help him break away from his concrete method of investigation and reasoning. He thus left the theory of taxation in that imperfect form in which his theory of profits would probably have been left but for his contact with Malthus, or that in which Malthus's theory of rent would have been left but for Ricardo.

As was the case in most of Ricardo's reasoning, his

starting-point in taxation was taken from Adam Smith. The theory of the latter is that the burden of taxation usually falls on the consumer. A sum equal to the amount of taxation was added to the price of commodities upon which the taxes were levied. The effect of taxation is to raise the general level of prices, just as an improvement in production lowers the level of prices. Consumers get the benefit of industrial progress, and have to bear the burden of taxation.

Ricardo rejected Smith's theory of the fall in prices through competition, and should therefore have rejected the related theory that consumers bear the burden of taxation. He saw that a general rise of prices was absurd unless the value of money changed, and should have seen that taxation cannot fall on consumers, for it cannot change the level of prices. That producers pay all taxes is as logical an outcome of his theory of value as it was for Adam Smith to say that consumers pay all taxes. If the level of prices cannot be changed, taxation must cut in on the difference between the cost of production and the value of commodities; that is, it must reduce rent or profits, the two forms of producer's surplus which Ricardo recognized.

Ricardo, however, failed to take the bold stand in taxation which he took in the discussion of profits. In the theory of taxation he often loses sight of his great theorem that values cannot rise or fall, and drops his discussion of many taxes when he has traced the effects as far as the consumer, even where his conclusion does not tally with the general principles to which he is elsewhere so fond of appealing. A few quotations will help to show defects of his theory of taxation: —

(1) A tax on the produce of land . . . would raise the price of raw produce by a sum equal to the tax, and would therefore fall on each consumer in proportion to his consumption.—*Political Economy* (Gonner's edition), p. 141.

(2) The probable effect of a tax on raw produce would be to raise the price of raw produce and of all commodities in which raw produce entered, but not in any degree proportioned to the tax; while other commodities in which no raw produce entered, such as articles made of the metals and the earths, would fall in price, so that the same quantity of money as before would be adequate to the whole circulation (p. 151).

(3) Tithes are a tax on the gross produce of land, and, like taxes on raw produce, fall wholly on the consumer (p. 157).

(4) As taxes on raw produce, tithes, taxes on wages, and on the necessaries of the laborer, will, by raising wages, lower profits, they will all, though not to an equal degree, be attended with the same effects. The discovery of machinery which materially improves home manufactures always tends to raise the relative value of money, and therefore to encourage its importation. All taxation, all increased impediments, either to the manufacturer or the grower of commodities, tend, on the contrary, to lower the relative value of money, and therefore to encourage its exportation (p. 196).

(5) We have seen that profits on raw produce, and on the profits of the farmer, will fall on the consumer of raw produce. . . . I have also attempted to show that, if the tax were general, and affected equally all profits, whether manufacturing or agricultural, it would not operate either on the price of goods or raw produce, but would be immediately as well as ultimately paid by the producers (p. 242).

(6) In the same manner a tax on the profits of the farmer would raise the price of corn; a tax on the profits of the clothier, the price of cloth; and, if a tax in proportion to profits were laid on all trades, every commodity would be raised in price. But, if the mine which supplied us with the standard of our money were in this country and the profits of the miner were also taxed, the price of no commodity would rise, each man would give an equal proportion of his income, and everything would be as before (p. 187).

These passages will show in what an unequal degree Ricardo made use of his general principles in the discussion of different taxes, and why he failed to reach any positive theory of the incidence of taxation. His concrete way of viewing each tax prevented him from applying to each new tax he studied the results of other investigations. On the fundamental question whether the consumer or producer pays the tax he takes an endless

variety of positions, regardless of the demands of his theory of value. He claims in the sixth quotation that a tax on the profits of all trades would raise the price of all commodities, and hence be paid by consumers, but that, if the profits of the miner from whose mine the money came were taxed, the price of no commodity would rise, and the producers would pay all the taxes out of their incomes. So small a change could hardly produce so great an effect. The weakness of the reasoning is due to the fact that certain premises which should have been used in connection with each individual tax are neglected, and are considered only when he is conscious of having a money problem before him. Ricardo's reasoning is always most perfect when he handles problems of money and foreign trade. He will then trace the ultimate effects of a cause which otherwise he would drop when its temporary effects were explained.

The best statement of the logical outcome of his theory of value is in the second quotation. Here he affirms that a tax will not raise the price of a commodity to the amount of the tax, and that other commodities not taxed will fall in price enough to compensate the consumer for the higher price of the taxed commodity. The consumer therefore loses nothing by the tax, and it falls wholly upon the producers as a class, although not necessarily on the producer of the taxed article.

The latter part of the fourth quotation explains how this compensation for taxation is secured by the consumer. All taxation lowers the value of money, and encourages its exportation. The equilibrium is restored only when the untaxed articles have fallen below their first price enough to compensate the consumer for the somewhat higher price of the taxed articles. The immediate effect of taxation is to raise prices; but it has no ultimate effect on prices because changes in the value of money counteract the effect of taxation on consumers. (See quotation No. 2.)

The defects of Ricardo's theoretical position on taxation are due to his stopping his investigations so often when the temporary effects were shown, and of not always bringing in his general principles to show the ultimate effects. He would then have seen that all taxes fall on producers. If his theory of value is correct, taxes merely change the ratios at which commodities exchange (objective values), and hence cannot raise general values or affect consumers. They will gain by the fall of one class of articles what they lose on other classes. Taxes must therefore be deducted from the difference between total values and the total costs of production, and thus be a burden to producers.

I have gone into the details of Ricardo's theory of taxation, not to show its defects, but to point out the way he actually reasoned when not influenced by other writers of more abstract tendencies. He began his investigations with phenomena which attracted his attention, and drew from them a picture of their causes in the specific relation which they bore to one another in each particular case. He did not think of these causes as abstract principles isolated from one another, and from the phenomena in which they were active. He was slow to recognize the unity of a principle which he had seen in two or more concrete forms, and often failed to apply a line of reasoning worked out in one group of circumstances to a new group differing somewhat from the first in its details. He failed to generalize in his discussion of taxation as much as in his discussion of value or of profits, for English taxation assumed so many concrete forms that its principles were obscured. He could form a picture of the mechanism through which profits or values rose and fell, but not of the more complex mechanism of taxation.

Ricardo was not, therefore, the abstract reasoner that we have been led to suppose. His famous propositions are all the result of concrete studies of English conditions in

his time. In his reasoning he always has these conditions before him as a picture, and he returns to them for the facts and premises upon which any new conclusion is based. He naturally reasoned from the particulars of a concrete illustration to some general conclusion, but seldom reasons from generals to particulars unless prompted by the reasoning of some other economist, as was the case when Malthus developed the law of rent. His theories of money, of profits, of value, and of international trade, are all disconnected specific studies. Bold generalizations are drawn directly from the facts of some concrete problem which attracted his attention in his immediate environment. It was the happy selection of the right features of English industrial life for study, and not the breadth of his studies, that made his theories so important, and gave him his fame as an economist.

The misleading estimation of Ricardo as a reasoner has been created by the belief that the theory of rent lies at the basis of his system, and that his other theories are deductions from the laws of rent and diminishing returns. This supposition, however, is not a fact. It is so much easier for us to reach his conclusions from these general laws that we neglect the order in which his ideas were developed. We reverse the historical order of the development of his ideas for what is to us a more natural order, just as he reversed the historical order in which land was brought into cultivation for the natural order in which we now cultivate it. He did this, however, not from any inclination to abstract reasoning, but because the actual condition of English industry and agriculture was so deeply impressed upon his concrete picture of the economic world. He never thought of studying the genesis of good land from poor land, any more than he thought of the genesis of the thrifty capitalist out of the careless laborer. He took the elements of his picture as they were

in his day, and created his economic world out of their mutual relations. His laws were therefore particular and concrete, and were made general laws only by his disciples, who, reasoning in a more abstract manner, substituted new proofs for many of his conclusions.

The history of economic theory shows that its progress has been due to four types of thinking, which may be called the abstract deductive, the concrete deductive, the inductive, and the geometrical methods of reasoning. In the abstract deductive method some quality, relation, or difference is selected which belongs to many classes of phenomena, and from its presence certain deductions are made of all the phenomena which have this common quality, relation, or difference. The reasoning is always from the abstract and general to the particular and concrete. The qualities are made more prominent than the concrete wholes from which they are taken. Menger is a good example of an abstract deductive thinker. His theories of subjective value, marginal utility, and complementary goods, are excellent examples of this class of deductions. There are, of course, many examples in English economics, as Senior's theory of interest, Malthus's statement of the law of rent, and Walker's theory of profits.

In the concrete deductive method there is no analysis of the wholes into abstract qualities. The units are of a concrete world. The capitalist is that concrete person met in the bank or the office of the merchant, and the laborer is the man in the factory or following the plough. The men of a given class are thought of not as having individual peculiarities, but as having the qualities of some typical man who has impressed his characteristics deeply upon the thinker. There is a gulf between the laborer, the capitalist, and the landlord which keeps them from being classed by any common or varying qualities. Money is money, and not a species of goods; land is wheat land; and wages are food. The Englishman is an Englishman;

the German, a German; the Italian, an Italian; and, because they will always remain with their national characteristics, foreign trade is sharply distinguished from domestic trade, where all the individuals of a class have the same qualities. Economists using this method take the concrete pictures they have formed of their own industrial environment as a basis and a starting-point. They thus reason from particulars to generals by boldly assuming that all persons are the same as the concrete individuals with whom they are familiar, and that all economic phenomena remain in that concrete relation to one another in which the thinker is accustomed to picture them.

Ricardo is the best example of this class of economists. He never analyzes his units into qualities, so as to trace the development of one form of phenomena into other related forms. In spite of his bold generalizations his thinking must be called concrete, because he sees his laws only in a certain group of relations, and often fails to recognize a law, if some part of a given group of relations is lacking. His "economic man" is not created by uniting a number of abstract qualities to form the man, but by taking as a type of all men some concrete example which was impressed upon Ricardo's imagination.

The abstract thinker takes several isolated qualities or differences, and unites them in a group to form the background of a given theory. The concrete thinker, like Ricardo, finds the background of his theory already formed in some specific case in his own environment, and gets his theory by stripping from the permanent relations found in his illustration their non-essential details. In this skeleton there is a strong cohesion of the relations and qualities of which it is made up. The origin of this particular group of relations is the result of natural circumstance, and not the result of an arbitrary hypothesis of the writer. The concrete thinker therefore has great difficulty in breaking them up into their parts, unless aided by some one whose reasoning is more abstract.

This concrete method of thinking must also be sharply contrasted with inductive reasoning. In any true induction the thinker begins with specific and isolated phenomena, and by skilful selection and arrangement he is able to find the law through which they are related. True inductions should be based upon the widest observation of all classes of phenomena under all conditions and in all regions. They have little value if derived from local experience, and none at all if drawn from the mental pictures which an economist may create of the men, material, and goods which form his economic world. Compare, for example, the inductive way in which J. S. Mill tries to prove the law of diminishing returns with the way in which Ricardo looks at the same law.

Of the economists who have used the geometrical method of reasoning, James Mill is the best example. He seldom appeals directly to experience, but bases his reasoning on "laws of arithmetic," "contradictions of terms," and on "logical absurdities." In this respect his statement of the law of profits should be compared with that of Ricardo. The latter, when speaking of the relation of profits and wages, evidently has the books of a merchant or manufacturer pictured before him. Expenses are wages in their ultimate analysis, while profits are the difference between these expenses and the selling price of goods. The two sides of the ledger are concrete facts. James Mill, however, reasons as follows: "When anything is to be divided wholly between two parties, that which regulates the share of the one regulates, also, it is very evident, the share of the other; for whatever is withheld from the one the other receives: whatever, therefore, increases the share of the one diminishes that of the other, and *vice versa*" (James Mill, *Political Economy*, 2d ed. p. 72). Another characteristic argument is to be found on page 99: "It has been most pertinently and conclusively remarked by Mr. McCulloch that time does

nothing. How, then, can it create value? Time is a mere abstract term. It is a word, a sound. And it is the very same logical absurdity to talk of an abstract unit measuring value and of time creating it."

Such reasoning evidently has little in common with that of Ricardo. It shows the working of a mind trained in logical analysis and abstract deduction, but not a mind familiar with the concrete facts of the industrial world. In spite of this disadvantage, James Mill proved of great service because of his influence in revising the basis of Ricardo's arguments. The later economists have accepted the content of Ricardo's doctrines, but have preferred the arguments devised by James Mill. This combination has many logical advantages, but the direct relation in which Ricardo stood to the English industrial world was lost sight of.

I recognize that the picture of Ricardo drawn in this paper will seem unwarranted by many of my readers. It must, however, be borne in mind that most economists have acquired their ideas of Ricardo and his doctrines mainly through the writings of J. S. Mill; and it is assumed that he is a good exponent of Ricardo's views, and that he received his political economy direct from Ricardo. Doubtless Mill as a mere boy often heard Ricardo talk on political economy, but it is fair to assume that the mere statement of the theories impressed itself more fully upon his memory than the form and character of the arguments. Therefore, he could hardly be a competent judge on the latter points, especially as he had peculiar views of the logical method of political economy, in which he would naturally assume that Ricardo shared. His admiration of Ricardo was too intense to allow him to think of Ricardo as using an erroneous method of reasoning. Mill, however, shows clearly in his Autobiography that he was carefully drilled in the logic of political economy by his father. He says, further, that the abstracts of these lessons were

used by his father as the basis of his *Political Economy*, published shortly afterwards. It is thus evident that J. S. Mill learned the doctrines of Ricardo in the logical form which they assumed in his father's mind, and not as they were thought out by Ricardo. These facts can also be clearly shown by comparing the reasoning of Mill in his *Political Economy* with that of his father. The results of those early lessons remained firmly impressed, and it is seldom that the form of a purely Ricardian doctrine departs from the reasoning of James Mill.

It would be foreign to the plan of this paper to compare the writings of J. S. Mill with those of his father. The material for such a study is so accessible that any reader can do it for himself. But it should be kept in mind that the early part of J. S. Mill's career was in fields outside of political economy. The first epoch of his mature life was occupied mainly by the agitation which preceded the Reform Bill of 1833. During the second epoch he was fully occupied with his logical investigations. When, therefore, he finally turned his attention to political economy, a whole generation of writers on political economy had intervened between Ricardo and himself. They had materially enlarged the content of the science, and had changed the emphasis from problems of prosperity to those of distribution and value. Mill tacitly accepts the results of their investigations without doing them justice for their services to the science. He was, perhaps, unconscious of the influence upon himself of the ideas of these writers, and of the logical method of his father. He thus attributed to Ricardo ideas foreign to the time in which Ricardo lived, and a method of reasoning out of harmony with Ricardo's concept of the industrial world. In this way Mill was unjust both to Ricardo and to the economic writers who preceded him. At the same time he gave an interpretation to the writings of Ricardo which has misled subsequent economists, and prevented them from

getting a correct idea of the development of economic theory during the first half of this century. Only through a fresh study of Ricardo's writings can we free ourselves from the erroneous impression of him created by disciples who were too willing to identify his ideas with theirs, and thus be able to present a solid front to the supposed enemies of sound reasoning and correct methods of investigation. Happily, deductive economics no longer needs the united support of particular doctrines to impress its value upon the public. No valid reason remains, therefore, why the writings of each theorist should not be studied in an historical spirit, and the influence of each of these writers be fully appreciated and correctly interpreted.

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NOTES AND MEMORANDA.

THE UNEMPLOYED IN GERMAN CITIES.

The growth of the larger cities, together with the steady increase of socialism, is forcing to the front the ugly problem of *Arbeitslosigkeit*. In Parliament during the past three sittings the debates have largely turned upon this question. The government, as well as all parties except certain members of the Freisinnige group, admit the fact of wide-spread and serious want among the city laborers. Minister von Berlepsch only insists that these necessities must be coped with by the towns, and not by the empire. At least eleven cities have been compelled to adopt extraordinary measures of relief, and the utterances of several mayors have unusual significance. In two cities, Magdeburg and Mannheim, interesting experiments have been made, which are likely to throw light upon a very threatening difficulty which is showing itself throughout Europe in sinister proportions. During the previous winter the evil was acknowledged to be serious, but various explanations were found,—"bad harvests," "poor business," "protection," etc. Authorities upon all sides are now admitting that these easy theories are not adequate.

A much better explanation is the common one that "it is all the work of the socialist agitators." It is known that the socialists, as they have long done in London, find immediate and very real advantage in exploiting for party ends these grim facts of city poverty and forced idleness. It was Liebknecht who brought the subject into Parliament. Scarcely a socialist organ exists which has not with systematic ingenuity worked upon public opinion from this vivid and sombre background. It looks, however, this present winter as if this account of the facts would also fail. Papers like the *Frankfürter Zeitung* are not only giving much editorial space to the subject, but are demanding that the *facts* should be presented. Dresden, so far as elaborate and well-managed relief works are

concerned, is called the model city of Germany. Last year it was pointed to as an illustration of what could be done by adequate organizations to ward off the evils which appeared so formidable in neighboring cities, like Berlin, Leipzig, etc. This winter the socialist group of that city offered to present a report upon the facts of forced idleness. This has just been refused by the municipal authorities, which has caused the most outspoken disapprobation from many well-known citizens "from scientific circles," who have no sympathy with socialism. The government has at last appointed a Commission for Labor Statistics upon which the names of two prominent socialists appear, Schippel and Molkenbuhr. In several cities attempts are making towards the same end, in some cases by the trades-unions, in others by the city officials. It was noticed last winter that the new provisions made in various cities to house the out-of-work during extreme weather were all inadequate. Berlin extended its space so much that it was thought equal to all exigencies. It soon proved to have no relation to the demand. The sixteen people's kitchens and Mr. Minlos' coffee-houses were also overcrowded to the point of embarrassment. Breslau and other cities made the same report. Lübeck had such experience that it began last October to make preparation by devoting 133,000 marks to "work for the poor." The mayor of Crefeld sent in an urgent report in November. Since that month Cologne, Essen, Bochum, Halle, Munich, Mannheim, Karlsruhe, Stuttgart, Iserlohn, all exhibit the same phenomenon. As has been said, eleven cities so far admit exceptional conditions as to have made provisions for the workless upon a scale wholly unusual.

It is realized fully that the rush to the cities is the surface *

* It has been thought to be practically dangerous to admit any exceptional condition towards which the city had any new or different obligations. The mayor of Cologne has resisted all pressure at this point, claiming that, bad as the situation is, it would be made worse if the city were to concede any claims which involved a radical change of municipal policy towards forced idleness. Von Berlepsch held this same position as to the empire, and much stress is laid upon this theoretical point. The *Arbeiter Kolonien*, for example, are charitable institutions by admission; while the relief stations are maintained by public authority. Von Bodelschwingh holds that the distinction is of most vital importance, since otherwise the socialist "right to labor" would be conceded.

The position taken by the city council in Stuttgart on January 19 is therefore of the more significance. A *Nothstand* was admitted, and with the admission goes also the concession that the city must make exceptional provisions for furnishing work.

cause of this difficulty. Some fifteen of the largest cities have tripled in the astonishing space of eighteen years. Berlin is increasing now by 60,000 yearly, and even at a more rapid ratio. The army trains its soldiers in cities, thereby wonting them to the fun and excitement, which become a dangerous memory as they return to the dulness of the country. The mere lottery chances of higher wages that the cities offer bring a constant stream to try their fortune. But, besides these well-known facts, one hears from the most competent judges that the towns have got to recognize the existence of distant but very real causes of this forced idleness,— causes which can be controlled only partially in their effects upon the given town. "We can't," it has been said, "prevent trade fluctuations which come from afar. We cannot prevent great strikes that are often as bad in their reactions upon other businesses as they are at the place of conflict." It is, therefore, very seriously proposed from many quarters that the principle of state insurance shall be extended to "those out of work against their will." It is also proposed that an official branch of city administration should be established, whose special concern it should be to deal with this problem. It is, however, the actual beginnings that have been made that here concern us most. Dr. Quark has reported upon Magdeburg and Mannheim with such minuteness that the policy likely to be followed is growing somewhat clearer.

Magdeburg began in the winter of 1891–92 to experiment on a larger scale by putting those out of work upon the earthworks of the new fortifications. A seven-hour day at 20 pfennigs the hour was adopted, giving 1.40 marks as daily wages. This pay was decided upon after careful examination of the average in this class in the community. It was found that higher pay could not be given without attracting laborers already at work in other places. It was also discovered that several businesses were likely to *discharge* a portion of their men, if the city gave sufficient opportunity. (The effort has already been made from semi-official quarters, as at Karlsruhe, to induce employers so to arrange their business as to keep their men on partial pay, even if fewer hours' daily work is given). The best known and most needy workers, especially

those having families, were first taken on. During the severer season of nearly four months nearly four-fifths of those who claimed work got it from the city. About 1,000 worked nine weeks, 1,734 only a month, 449 three months. According to the overseers' opinion, the average value of the work was about three-fourths of that which 1.40 marks daily wages was expected to produce.*

Of far more interest and significance is the experiment now under trial in Mannheim, where beginnings were made early in December. Experiments were begun a year ago with discouraging results; but it was urged with much force that, in almost every instance, no adequate preparations had been made for so difficult a task,— that the failure was therefore chiefly with the authorities. The conditions in Mannheim were carefully studied; and the fairest trial yet made is the result. An exhaustive report was issued upon the kind of work (in this case "deep building"), its fitness for, and relation to, the kind of laborer with whom they had to do. A statistical estimate was made of the numbers likely to present themselves. This was done by the concurrent action of the trades-unions, and under socialistic impulse. It is doubtless coming to be more and more recognized in this unhappy problem that the socialist and trades-union groups are necessary, if trustworthy statistics are to be forthcoming. But in this Mannheim experiment another step was taken, and definite responsibilities were thrown upon these groups. The laborers were separated into small manageable sections. Several kinds of work were given out, such as stone-breaking, repairing the highways and parks, etc. Some four hundred men presented themselves, but the city officials could not command the personal knowledge necessary to a proper distribution and control of such numbers. The best of them would have nothing to do with the Charity Bureau. The trades-unions offered to appoint a commission to co-operate. This offer was accepted, and to the commission were given special privileges of authority over those asking work, so that the men seemed to be working under the dictation of "labor" rather than under that of "capital." A suggestion was further made that the workmen, instead of being managed by city officials, should select from among themselves their

* Dr. Quark, *Blätter für sociale Praxis*, January 4.

own overseers. These should have their authority and responsibility strengthened by the express sympathy of the trades-union commission (from whom, I believe, the suggestion came). The unbroken stone, for example, was given out to be prepared by piece-work, and paid for upon Friday night according to amount done. It was agreed that the idlers should be dropped the moment they were discovered.

It is, of course, too early to pass judgment upon this experiment. Dr. Quark has examined it closely and carefully, reporting that it shows every sign of success. The chief of the Deep Building Department is reported as saying that the city is not likely to lose, even in money. Better and more work has been done than was expected; and the Labor Commission has been preparing for an extension of the work, as the number of workless laborers appears to be quite one-third larger than the highest estimate. What gives interest to this case is the fact that the confused experiments made last winter (1891–92) showed that neither charities nor city officials were likely to cope with the problem without enormous loss. It was also evident that, if the evil became worse, or even chronic without becoming worse, the practical embarrassments would increase as socialism developed its propaganda. The constant teaching that those out of work are innocent victims of a corrupt and decaying system makes all profitable employment of these laborers impossible so long as they feel themselves mere objects of charity or in the control of the city officials. However little their bitterness is justified, they have learned from their teachers a lesson which leaves only bitterness behind it. The crowds that are just now disturbing Brussels and Amsterdam show the same rage against the charity institutions as is shown in the German cities. The most important part of these out-of-work groups have done with charity doles; and the feelings which the laborers now harbor, the opinions which have been given them, make the task of the city, in any mere getting up of work for them, nearly hopeless.

It is for this reason that the Mannheim experience has its interest. To the extent that this experience is genuine it has but one meaning: far more definite responsibility must be thrown upon those groups of laborers who feel such sense of common sympathy that they can exercise upon their members

the kind of bracing as well as restraining force which a recognized public opinion alone gives. In these German cities, among the class of laborers of which we speak, the public opinion of the upper classes either has no existence or it acts upon this "proletariat" only to irritate them and make them useless for any really profitable work. For all opponents of socialism, it is a hazardous step thus boldly to recognize the cities' incompetence to meet the difficulty without the systematic and organized co-operation of socialistic unions. It not only gives new power into their hands, but involves at length a more elaborate municipalizing of city works and business. The experience, however, now indicates no other possible resources except such as lie in the direction of the Mannheim experiment.

JOHN GRAHAM BROOKS.

FREIBURG (BADEN), January, 1893.

Since the above note was written, the first issue, in 1893, of Professor Post's *Wohlfahrts-Correspondenz* has appeared. Professor Post has a position in the Ministry of "Handel und Gewerbe," where he represents the "Centralstelle für Arbeiter-Wohlfahrts-Einrichtungen." Much space is here given to the question of the unemployed, and the various attempts in different cities to deal with the difficulty. It is noted that the condition is worse this winter even than last, in spite of lower prices for food. The experiences of Göttingen and Halle are given, and the further fact concerning Köln, that the pay to those demanding work last winter was the occasion of several employers turning away men, whom otherwise they would have kept, *in order* to let the city give them work. Light is also thrown upon the dangers of a too sharp competition for home laborers, unless the residence laws are strictly observed. It is made especially clear that the cities must now make careful and adequate preparations *beforehand* for this evil. The city of Freiburg long tried to make or mend its roads in winter; but this is given up, as the experience proves that it is merely trumped up work, that is not only very costly, but not durable. Most important, however, in Professor Post's paper, is the approving judgment he seems to give to the Mannheim experiment, which appears to him of promising significance.

THE NEW ENGLISH LABOR DEPARTMENT.

A beginning was made in England some seven years ago in the collection of industrial statistics by the appointment of Mr. John Burnett as Labor Correspondent of the Board of Trade, under the superintendence of Mr. Giffen. It was, as Mr. Mundella, the President of the Board of Trade, has recently said, "a bold thing to appoint the leading secretary of the leading trade-union of England as a member of a government department," and still more to intrust him with a task of so delicate a nature. The wisdom of the appointment has, however, been abundantly proved by Mr. Burnett's work. His annual reports, notably those on strikes and lockouts, have been distinguished by fair-mindedness and good sense; and his official superiors, conservative as well as liberal, have, as Mr. Mundella went on to say, "been impressed with a sense of the invaluable services he has rendered with so much tact and judgment, not only in connection with labor reports, but in respect to the work of the government and to the information the government themselves required."

Mr. Burnett has, however, been hampered in every direction by the insufficiency of the staff at his disposal; and the government has now determined to establish a labor department on an adequate scale. To this several causes have contributed. The present Liberal ministry is in so precarious a condition that it is more than usually anxious to increase its popularity with the working classes, especially as recent elections have shown the power of the extreme labor party to transfer seats to the Conservatives. The ministry contains several men who are beyond all doubt keenly and unselfishly interested in social questions, and Mr. Mundella himself, to whose initiative the new movement is due, distinguished himself more than thirty years ago, when he was known only as a successful man of business, by his efforts to establish a Board of Conciliation in the hosiery trade of Nottingham. Moreover, there has taken place during the last few years, largely owing to the existence of the London County Council, a certain *rapprochement* between the old-fashioned school of utilitarian administrators and the younger school of more or less "social-

istic" reformers and social politics have entered into a new phase of practicality and opportunism. And, finally, we must not leave out of sight the immense effect upon educated opinion of Mr. Charles Booth's researches, which have deservedly created a fresh confidence in statistical inquiry.

Henceforth, says the official memorandum: —

"The work of collecting, digesting, and publishing statistical and other information bearing on questions relating to the conditions of labor, will be intrusted to a separate branch of the Board of Trade. This branch will take over the work of the present Commercial Department at the Board of Trade, and will consist of three distinct departments,— Commercial, Labor and Statistical,— the whole being under the superintendence of Mr. Giffen, as Controller-General."

The special staff in the central office of the Labor Department, which will occupy separate buildings of its own (temporarily in No. 43 Parliament Street), will consist of a Commissioner for Labor (in general direction of the department), a Chief Labor Correspondent, three additional Labor Correspondents (one of whom will be a lady), and about thirty clerks of all grades.

Mr. Burnett will continue to be Chief Labor Correspondent. The new Commissioner for Labor is Mr. Llewellyn Smith, who had a distinguished career at Oxford, taking the Cobden prize for an essay on Political Economy in 1886 and a first class in mathematics in the same year; was for a time lecturer to the Toynbee Trust; wrote in 1889, in conjunction with Mr. Nash, a brilliant little book on the dockers' strike; and contributed the chapters on "Influx of Population" to Mr. Booth's *Labor and Life of the People.* It was probably to these chapters that Mr. Smith's appointment was due. They attracted more attention, perhaps, than the work of any other of Mr. Booth's contributors, showing, as they did, that most of the current ideas as to migration from the country to the towns took a fundamentally mistaken view of the effects of the phenomenon. Mr. Smith is one of the best examples of the Charles Booth school of economic investigators,— men in whom warm sympathies are united with knowledge and scientific method. The lady Correspondent, Miss Clara Collet, is an M.A. of London University, and belongs also to Mr. Booth's circle.

The new "Labor Department,"— "let us get rid of the word

'bureau,'" says Mr. Mundella: "the English language is good enough," — has arranged with some seventeen local correspondents throughout England, connected with labor organizations, to supply it with information affecting labor in their respective districts; and it has made a similar arrangement with two correspondents in Scotland and three in Ireland.

The functions of the department are best described in the following extracts from the memorandum: —

> The main branches of work contemplated at present, besides the continuation and extension of the work hitherto carried on by the Labor Correspondent and others in the Commercial Department of the Board of Trade, . . . are the following: —
>
> 1. A *Labor Gazette* will be issued, at first monthly. . . . Its object will be to supply accurate information on subjects of special interest to workmen and workwomen. Thus Mr. Burnett's monthly reports on the state of the skilled labor market will appear in a more fully developed form in the *Gazette*. There will be also an account of trade disputes, begun, closed, or in progress during the month, and of important industrial negotiations, such as arbitrations, changes of sliding scales, apportionment of work between different trades, etc.
>
> A monthly digest will be published of reports from factory and mines' inspectors to the Home Office on the state of labor in their districts, so far as it comes within their province; on accidents, proceedings under the Factory and Workshops Acts and Mines Regulation Acts, and it is hoped . . . to refer to important proceedings under the Employers' Liability Act; to action taken by local authorities with regard to the sanitary condition of workshops, and by local authorities under the acts bearing on the housing of the poor. Important meetings and conferences . . . will be noticed. . . .
>
> It is hoped . . . to obtain for the *Gazette* . . . particulars as to the working of the acts for providing allotments and small holdings, and other matters bearing on the condition of agricultural labor.
>
> At frequent intervals reports on matters specially affecting women's labor will be prepared for the *Gazette* by the lady Labor Correspondent. An effort will be made to supplement the report of the Chief Labor Correspondent on the state of the skilled labor market by obtaining each month accurate particulars as to changes in volume of employment in certain irregular trades. . . . It is hoped to give statistics in the *Gazette* on such subjects as pauperism, saving-banks, education (especially in its industrial aspects), exports and imports, and the retail price level of the chief articles of ordinary consumption by workmen, as well as comparative tables of wholesale prices of leading articles in the chief markets of the world. Notices will be inserted of the more important events affecting labor in various foreign countries; and a list will be peri-

odically published of government publications, both in the United Kingdom and abroad, which treat of labor matters, with a short, popular abstract of the contents of the more important of these documents, and of important legislation at home and abroad. . . .

The *Labor Gazette* will be published at 1*d.*; and a large number of copies will be gratuitously distributed to free libraries, workmen's organizations, mechanics' institutes, chambers of commerce, and other institutions.

2. Special inquiries will be undertaken from time to time by the Labor Department into important subjects bearing on labor on which adequate information is not at present available. . . .

3. The department also will be prepared to carry out such special inquiries as may be ordered from time to time by Parliament into labor questions.

4. The department hopes to publish an annual report of its proceedings, framed, so far as possible, so as to be a handy book of reference for workmen to the principal labor questions which have engaged the attention of the department during the year.

We are authorized to inform our readers that it is the intention of Professor Böhm-Bawerk to make a contribution to the animated discussion of capital which has been roused by his well-known works. Pressing demands upon his time have hitherto forbidden him to examine, as he could wish, the numerous criticisms and arguments which have been offered with respect to his theory of capital; but we have reason to hope that in the course of the present year, 1893, we shall be able to lay before our readers the author's reply.

The annual meeting of the American Economic Association will be held this year at Chicago in the course of the week September 11–16. As the sessions of the International Statistical Institute, in which American economists have a strong interest, are also to take place in the same week, the more precise announcement of time and place for the Economic Association has been reserved, to await a complete adjustment of the programmes of the two bodies.

It is announced that the British Association for the Advancement of Science will meet this year at Nottingham in the week beginning September 4. Professor J. S. Nicholson, of Edinburgh, is to preside at the meetings of Section F (Political Economy and Statistics).

We learn that the report made to the Upper House of the Austrian Reichsrath on the vote for the establishment of the gold standard, translated and published in the January number of this journal, was the work of Dr. Inama-Sternegg. The distinguished writer, who is one of the editors of the *Zeitschrift für Volkswirthschaft, Socialpolitik, und Verwaltung*, is also a member of the Herrenhaus, and in that capacity served upon the special commission appointed to report upon this subject.

Messrs. Baer & Co., of Frankfurt, announce *Blätter für soziale Praxis*, a weekly publication to be devoted to public and private charity, and to "*soziale Fürsorge*" of every sort. Practical experience is alone to receive attention: theory is to play no part. The journal is addressed primarily to administrators of public and private charity, and to others interested in the organization of relief. The editor is Dr. N. Brückner, and the subscription price ten marks a year.

Messrs. Duncker & Humblot, of Leipzig, announce the publication of a *Sammlung älterer und neuerer Staatswissenschaftlicher Schriften*, under the editorial supervision of Professors Brentano and Elster. The series is meant primarily for German students, and is to render more accessible to them publications of older date, and, by translation, those of modern date also. The wide scope of the proposed issues is indicated by the following list of those already planned:—

1. Mrs. Sidney Webb (Beatrice Potter), *Die britische Genossenschaftsbewegung*. Edited by L. Brentano.

2. The three Albertine-Ernestine pamphlets on Coinage. Edited by W. Lotz.

3. *German Industry after the Thirty Years' War: Colloquy between Merchant, Peasant, and Nobleman.* Edited by E. Gothein.

4. *Anderson on Corn Laws and Rent.* Edited by L. Brentano.

5. *Malthus on Corn Laws* (1814, 1815). Edited by E. Leser.

6. *Ricardo on Corn Laws.* Edited by E. Leser.

7. W. Stafford's *Three Conversations (sic) of* 1581. Edited by E. Leser.

Other authors mentioned for prospective reprinting are Fortescue, Oresme, Mun, Petty, Bernouilli, Owen.

The French co-operators have followed the English example by beginning the issue of an annual *Almanach de la Coopération Française.* The first volume, for 1893, is published by the committee of the French societies for distribution (*Comité Central de l'Union Coopérative,* 10 Rue de Nesle, Paris), at the modest price of twenty centimes. Professor Gide furnishes an introduction, and also a preface to a feature novel among almanacs,— brief biographies of twelve apostles of co-operation, which face the calendars for the twelve months. The twelve so celebrated are Fourier, Buchez, Leclaire, Godin, Owen, Maurice, Vansittart-Neale, Holyoake, Schulze-Delitzsch, Raiffeisen, Vigano, and De Paepe. Then follow sketches of famous co-operative establishments,— the Rochedale Pioneers, the Familistère of Guise, and others, by way of example and encouragement to struggling brethren; statistics as to foreign countries; and, finally, information as to France. The list for France enumerates: —

Societies for Production,	81
Building Societies,	3
Profit-sharing Establishments,	115
Credit Societies,	18
Distributive Societies,	942

The major part of the little volume is propagandist, but it gives fresh and interesting information, and the spirit of the whole is at once sober and hopeful. For its purposes, it is admirably prepared.

AMONG recent issues from the Government Printing-office at Washington we note several documents of interest to economists. Two investigations of the strike at the Homestead Steel Works were made,— one by a House committee, another by a Senate committee. In the testimony printed with the two reports, the important facts in that great disturbance are elicited as completely as could be expected. Less can be said of the report of two House committees which examined the coal combination and the whiskey trust, respectively. The testimony gathered is of value, especially that in regard to the combination of the coal companies in 1892; but, on the whole, the economist finds less fresh material available for his purposes than might have been expected.

The Senate Committee on Interstate Commerce presents reports of hearings and arguments on proposed amendments to the Interstate Commerce Act. The "hearings" contain statements by prominent railway officials in favor of the repeal of the clause prohibiting pooling,— statements which should be read with the expressions of opinion on that subject gathered by the Interstate Commerce Commission in its last report to Congress. The "arguments" are for and against the bill proposed by the commission itself for amending the act. Among them is a weighty opinion by Mr. Olney, the newly appointed Attorney-General, to the effect that the amendments which strive to make the commission's findings as to facts virtually final are void under the clause of the Constitution on the judicial powers.

Lastly, the Senate Committee on Finance has brought out its detailed report on retail prices and wages before and after the tariff act of 1890. The essential results of this investigation were given to the public some time ago in the summary noticed in our issue for October, 1892 (p. 103); and the imposing array of detailed figures in the three bulky volumes

now printed adds but little. The report on wholesale prices now in course of publication covers a longer period, and may be expected to present much more important material; but it will not be printed for some months.

THE circumstances under which the French Chambers have found it necessary to raise the limit of note issue by the Bank of France from 3,500,000,000 francs, where it has stood since 1884, to 4,000,000,000, has caused some inquiry as to the importance of maintaining any limit at all. The limit, as well as the legal tender quality of the notes, is a relic of the war of 1870–71; and, as the issues of the bank were managed perfectly well without any limit until 1870, and as whenever the actual circulation approaches the legal maximum the latter is now sure to be raised, the value of the limit is questioned. This is done with the greater reason, seeing that the increase in the circulation of the bank comes, not from an increase of loans for profit, but from a virtual exchange of notes for specie for the convenience of the public. It was stated in January that, the limit of 3,500,000,000 francs being nearly reached, the bank had found it necessary to refuse gold which was offered it. And in the week from January 5 to 12, 17,000,000 francs were said to have been paid into circulation in gold in consequence of the impossibility of making payment in notes. At the end of the week, with a note issue of 3,473,000,000 francs and deposits of 618,000,000, the bank held 2,959,000,000 in specie, of which over 1,700,000,000 was in gold.

The limit, as well as the legal tender power of the notes, appears to have been retained after the resumption of specie payment, in order to facilitate the use of notes as a convenient substitute for specie in large payments, especially in the country districts. This is reported to have been done, not upon any request by the bank, but upon the urgent representations of men of business, notaries, and others having occasion to effect important transactions at a distance from any financial centre. The note has now made its way, the use of it has

become a habit of the present generation, and the circulation of the bank has thus risen to figures which formerly seemed impossible. In this state of things it is difficult to see what is gained by having a limit which is purely nominal or even by maintaining the legal tender power of the notes.

M. Leroy-Beaulieu, in *L'Economiste Français*, opposed the recent change by which the maximum was raised, finding in the increase of issues against specie some dangerous but not well-defined inflation, and some similar risk in case of the withdrawal of specie upon any sudden event. "Let the bank pour out its gold and silver if its business requires," he adds. "It is dangerous to accustom ourselves to a gigantic amount of note circulation." On the other hand, M. Beauregard, in *Le Monde Economique*, contends that the regulation is useless; that it serves as the pretext for proposed legislation of a dangerous character; and that those who find in it a safeguard against a drain of specie from France have forgotten to describe the mechanism by which any such drain would operate.

Among the acts passed in the last hours of the Fifty-second Congress was that requiring railroads engaged in interstate commerce to equip trains with power brakes and cars with automatic couplers. Both provisions go into effect on January 1, 1898. After that date no railroad may run locomotives not equipped with a power driving-wheel brake, or cars not equipped with train brakes; nor may it haul cars not equipped with automatic couplers. The American Railway Association is authorized to designate, within ninety days after the passage of the act, a standard uniform height for draw-bars of freight cars. If the association fails to do so, the task devolves on the Interstate Commerce Commission. The commission is also empowered, "upon full hearing and for good cause," to extend the period within which a carrier shall comply with the act. Although not entirely without precedent in federal legislation, the measure is distinctly novel in scope and purpose. But the time was ripe for it, and the requirements cannot be said to be unduly rigorous.

RECENT PUBLICATIONS UPON ECONOMICS.

[Chiefly published or announced since January, 1893.]

I. GENERAL WORKS, THEORY AND ITS HISTORY.

ARGYLL (Duke of). The Unseen Foundations of Society: An Examination of the Fallacies and Failures of Economic Science due to Neglected Elements. London: J. Murray. New York: Scribners. 8vo. $5.

BRENTANO (L.). Die Volkswirthschaft und ihre konkreten Grundbedingungen, I. [Erstes Kapitel einer "Volkswirthschaftslehre."] Zeitschr. für Soc.- und Wirthschaftsgeschichte, I., 1.

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PALGRAVE (R. H. I., Editor). Dictionary of Political Economy. Fourth Part [to Debts, Public]. London and New York: Macmillan & Co. 8vo. pp. 385–512. $1.

SHIRRES (L. P.). An Analysis of the Ideas of Economics. London: Longman. 8vo. pp. 260. 6s.

THOMPSON (H. M.). The Theory of Wages. London and New York: Macmillan & Co. 12mo. pp. 140. $1.

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CLARK (J. B.). Surplus Gains of Labor. Annals of Amer. Acad. of Polit. and Soc. Sci., March.

HOBSON (J. A.). The Influence of Machinery. Polit. Sci. Quarterly, March.

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MARSHALL (A.). On Rent. Econ. Journ., March.

MERRIAM (L. S.). Theory of Final Utility in relation to Standard of Deferred Payments. Annals of Amer. Acad. of Soc. and Polit. Sci., Jan.

PARETO (V.). Considerazioni sui Principii Fondamentali dell' Economia Politica Pura [continued]. Giorn. degli Econ., Jan.

PATTEN (S. N.). Cost and Utility. Annals of Amer. Acad. of Soc. and Polit. Sci., Jan.

WARD (L. F.). Psychologic Basis of Social Economics. Annals of Amer. Acad. of Soc. and Polit. Sci., Jan.

WICKSELL (K.). Kapitalzins und Arbeitslohn. Jahrb. f. Nat. Oek., 4, Heft 6.

II. SOCIAL QUESTIONS, LABOR AND CAPITAL.

ALMANACH de la Co-opération Française, 1893. Première année. Paris: Imprimerie Nouveel. 12mo. pp. 123. 20 c.

BERTOUCH. Vorschläge zur Lösung der Arbeiterfrage. Wiesbaden: Dietrich. 8vo. 3 m. [Announced.]

BLISSARD (W.). The Ethic of Usury and Interest: A Study in Inorganic Socialism. 12mo. pp. 199. $1.

BOIES (H. M.). Prisoners and Paupers: A Study of the Abnormal Increase of Criminals and the Public Burden of Pauperism in the United States. New York: G. P. Putnam's Sons. 12mo. pp. 329. $1.50.

BOOTH (C.). Life and Labor of the People of London. London: Macmillan & Co. 8vo. Vol. II. pp. 280. 3s. 6*d*. Maps, 5*s*. Vol. III. pp. 300. 3*s*. 6*d*.

BRÜCKNER (N.). Die öffentliche und private Fürsorge. Gemeinnützige Thätigkeit und Armenwesen, mit bes. Bez. auf Frankfurt a. M. Frankfurt: C. Jügel. 8vo. To appear in parts. Per part, 2 m.

CARO (L.). Der Wucher. Eine socialpolitische Studie. Leipzig: Duncker & Humblot. 8vo. pp. 326. 6 m.

GÖRRES (K.). Handbuch der gesammten Arbeitergesetzgebung des deutschen Reichs. Freiburg: Herder. 8vo. pp. 801. 8 m.

GOULD (E. R. L.). The Social Condition of Labor. [Johns Hopkins Univ. Studies.] Baltimore. 8vo. pp. 45. 50 cts.

POST (J.) and ALBRECHT (H.). Musterstätten persönlicher Fürsorge von Arbeitgebern für ihre Geschäftsangehörigen. Band 2: Die erwachsenen Arbeiter. 8vo. pp. 900. Illustr. Berlin: R. Oppenheim. 24 m.

ROSIN (H.). Das Recht der Arbeiterversicherung. Für Theorie und Praxis systematisch dargestellt. Band 1: Die reichsrechtlichen Grundlagen. (Has been appearing in parts; now completed.) Berlin: Guttentag. 8vo. pp. 851. 18.50 m.

TROMBART (A.). Guide Pratique pour l'Application de la Participation aux Bénéfices. (With an introduction by Ch. Robert.) Paris: Société pour l'Étude de la Participation. 6 fr.

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ASHBY (J.) and KING (B.). Statistics of Some Midland Villages. Econ. Journ., March.

BOOTH (C.). Waterside Labor in the Port of London. [Inaugural address as Pres. of the Royal Statist. Soc.] Journ. of Statist. Soc., Dec.

BOSANQUET (B.). The Principles and Chief Dangers of the Administration of Charity. Int. Journ. of Ethics, April.

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GIDE (C.). Le Mouvement Co-opératif en France dans les dix dernières Années. Rev. d'Écon. Polit., Jan.

GOULD (E. R. L.). L'État Social du Travail d'après l'Enquête du Department of Labor de Washington.—Les Ouvriers de la Houille, du Fer, et de l'Acier en Europe et en Amérique. La Réf. Sociale, Jan. 1, 16.

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ROESICKE (R.). Ueber das Verhältniss der Arbeitgeber zu ihren Arbeitnehmern. Vortrag in der Staatsw. Gesellschaft zu Berlin. Jahrb. f. Gesetzg., 17, Heft 1.

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III. SOCIALISM.

BOURDEAU (J.). Le Socialisme Allemand et le Nihilisme Russe. Paris: Lib. F. Alcan. 18mo. pp. 322. 3.50 fr.

GILMAN (N. P.). Socialism and the American Spirit. Boston: Houghton, Mifflin & Co. 8vo. $1.50.

GLADDEN (W.). Tools and the Man [Labor, Competition, Co-operation, Socialism]. Boston: Houghton, Mifflin & Co. 8vo. $1.25.

JENTSCH. Weder Kommunismus noch Kapitalismus. Leipzig: Grunow. 4.50 m. [Announced.]

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CLARKE (W.). The Limits of Collectivism. Contemp. Rev., Feb.

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IV. LAND.

CAVAGLIERI (G.). Il Diritto di tutti gli Uomini all' Effettivo Godimento della Terra. Venezia: Tip. Visentini. pp. 158.

UNSIGNED. Australasian Sheep and Wool. Special Consular Report. Washington: Bureau of Statistics, State Department. 8vo. pp. 246.

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MARCH-PHILLIPS (E.). Small Farms. Fortnightly Rev., Jan.

VALENTI (G.). La Campagna Romana, e il suo Avvenire Economico e Sociale. [To be continued.] Giorn. degli Econ., Jan., March.

V. POPULATION, EMIGRATION, AND COLONIES.

BORTKEWITSCH (L.). Die mittlere Lebensdauer. Die Methoden ihrer Bestimmung und ihr Verhältniss zur Sterblichkeitsmessung. (In Staatsw. Studien, edited by L. Elster.) Jena: Fischer. 8vo. pp. 123. 3 m.

GRAY (J. H.). Die Stellung der privaten Beleuchtungsgesellschaften zu Stadt und Staat. Die Erfahrungen von Wien, Paris, und Massachusetts. [In Conrad's Abhandlungen.] Jena: Fischer. 8vo. pp. 179. 3.50 m.

PHILIPPOVICH (E. von). Auswanderung und Auswanderungspolitik in Deutschland. Leipzig: Duncker & Humblot. 8vo. pp. 512.

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VI. INDUSTRIAL ORGANIZATION.

In Periodicals.

GONNER (E. C. K.). The Survival of Domestic Industries. Econ. Journ., March.

VII. TRANSPORTATION AND EXCHANGE.

EGER. Das internationale Uebereinkommen über den Eisenbahnfrachtverkehr. Breslau: Kern. 8vo. 5 m. [Announced.]

FIELD (H. M.). The Story of the Atlantic Telegraph. New York: Scribner's. 12mo. $1.50.

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POLAKOWSKY (H.). Panama oder Nicaragua-kanal? Leipzig: A. Solbrig. 8vo. pp. 87. Charts. 3 m.

ULRICH (F.). Die Ausbildung der höheren Verwaltungsbeamten in Preussen und ihre Stellung in der Staatseisenbahnverwaltung. Berlin: Springer. 8vo. pp. 62. 1.40 m.

VAN OSS (S. F.). American Railroads as Investments. New York: G. P. Putnam's Sons. 8vo. $4.

WILCZEK (E.). Gedanken über die Sicherheit und Oekonomie des Eisenbahnbetriebes. Vienna: Hartleben. 8vo. pp. 61. 1.50 m.

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HAYNES (F. E.). The Reciprocity Treaty with Canada of 1854. [Publication of Amer. Econ. Assoc.] Baltimore. 8vo. pp. 73. 75 cts.

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STERN (R.). Theorie und Praxis des Gold-Importes nach Oesterreich-Ungarn . . . auf Basis der Kronenwährung. Vienna: Perles. 8vo. pp. 58. 1.60 m.

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IX. MONEY, BANKING, CREDIT, AND PRICES.

BAIN (F. W.). The Corner in Gold: Its History and Theory. Being a Reply to Mr. Robert Giffen's "Case against Bimetallism." London: Parker. 8vo. 2*s.* 6*d.*

DURYEA (J. B.). Practical Treatise on the Business of Banking and Commercial Credits. Des Moines: J. B. Duryea. 8vo. pp. 432. $2.50.

HOHENEMSER (H.). Die Consumtion des Goldes durch Vermischung und Verausgabung. Marburg: Elwert. 8vo. 1.60 m.

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TRENHOLM (W. L.). The People's Money. New York: Scribners. 12mo. $1.50.

WOLF (J.). Verstaatlichung der Silberproduktion und andere Vorschläge zur Währungsfrage. Der Konferenz zu Brüssel 1892 gewidmet. Zürich: C. Schmidt. 8vo. pp. 68. 2.50 m.

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X. FINANCE AND TAXATION.

FISCHEL (A.). Zur Kritik der Steuerreformvorlage. Vienna: J. Eisenstein. 8vo. pp. 66. 1.20 m.

GERLACH (O.). Die preussische Steuerreform in Staat und Gemeinde. Jena: Fischer. 8vo. pp. 112. 1 m.

KOENIG (G.). Die Bedeutung der Steuervorlagen in und für Oesterreich. Vienna: Konegen. 8vo. pp. 126. 1.80 m.

NEUMANN (A.). Die Verbindung des Grundbuchs mit dem Steuerbuch. Berlin: Vohlen. 8vo. pp. 133. 3 m.

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STRUTZ. Der oesterreichische Gesetzentwurf, betreffend die direkten Personalsteuern. Ann. des Deutsch. Reichs, No. 2.

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XI. HISTORY, BIOGRAPHY, AND DESCRIPTION.

ADLER (G.). Die Fleisch-Steuerungspolitik der deutschen Städte beim Ausgang des Mittelalters. Tübingen: Laupp. 8vo. pp. 133. 2.40 m.

ENGEL (A.). Ungarn's Holzindustrie und Holzhandel. Technische, wirthschaftliche, und statistische Mittheilungen. Vienna: W. Frick. 8vo. pp. 420. 9.60 m.

GEBAUER (H.). Die Volkswirthschaft im Königreiche Sachsen. Historisch, geographisch, und statistisch dargestellt. Band 2. Dresden: Baensch. 8vo. pp. 579. 10 m.

MAYER (M.). Bayern's Handel im Mittelalter und in der Neuzeit. Eine historische Skizze. Munich: E. Pohl. 8vo. pp. 106. 2 m.

NELSON (R. B.). Coal Pits and Pitmen: A Short History of the Coal Trade and of the Legislation affecting it. London and New York: Macmillan. 12mo. $1.

NICKEL (T.). Sozialpolitik und soziale Bewegungen im Alterthum. Paderborn: Schöningh. 8vo. pp. 50. 1.20 m.

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XII. STATISTICS.

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XIII. REPRINTS AND NEW EDITIONS.

BRENTANO (L.). Ueber das Verhältniss von Arbeitslohn und Arbeitszeit zur Arbeitsleistung. 2 Auflage. Leipzig: Duncker & Humblot. 8vo. pp. 111. 1 m.

TAUSSIG (F. W.). The Silver Situation in the United States. Second, revised and enlarged edition. New York: G. P. Putnam's Sons. 8vo. pp. 140. $1.

XIV. NOT CLASSIFIED.

GRÜNWALD (J.) und LILIENTHAL (L.). Zum Terminhandel an der berliner Produktenbörse. Berlin: Lazarus. 8vo. pp. 64. 1 m.

MÜHLBRECHT (O.). Wegweiser durch die neuere Literatur der Rechts- und Staatswissenschaften. 2te Auflage. Berlin: Puttkammer & Mühlbrecht. 8vo. pp. 776. 28 m.; bound in two vols., 36 m.

NASSE (R.). Die Kohlenvorräthe der europäischen Staaten, insbesondere Deutschlands, und deren Erschöpfung. Berlin: Puttkammer & Mühlbrecht. 8vo. pp. 55. 1 m.

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